

EPA Region 5 Records Ctr.



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OMC

Company Profile

Outboard Marine Corporation (OMC) is a leader in the manufacturing and marketing of marine products and services, consumer and commercial turf care equipment and light commercial vehicles. A number of OMC's brands, such as *Johnson Outboards*, *Evinrude Outboards*, *Four Winns* boats, *Stratos* bass boats, *Lawn-Boy* lawn care products and *Cushman* vehicles, are among the most widely recognized and respected brand names in their industries.

Headquartered in Waukegan, Illinois, OMC manufactures products for the world market in 23 U.S. plants and six international facilities. In fiscal 1987, 22 percent of the company's net sales came from outside the United States. OMC employed approximately 11,500 persons worldwide as of September 30, 1987.

| | | | | |
|---------------------------------|---------------------------------------|-------------------|------------------------|----------------------------------|
| Outboard Marine Corporation is: | Marine Power Products and Accessories | Boats | Marine Services | Vehicles and Turf Care Equipment |
| | <i>Evinrude Outboards</i> | <i>Four Winns</i> | <i>Adventurent</i> | <i>Cushman</i> |
| | <i>Johnson Outboards</i> | <i>Lowe</i> | <i>Top of the Dock</i> | <i>Ryan</i> |
| | <i>OMC Cobra Stern Drive</i> | <i>Stratos</i> | Power Lawn Products | <i>Brouwer</i> |
| | <i>OMC Sea Drive</i> | <i>Sunbird</i> | <i>Lawn-Boy</i> | |
| | <i>OMC Parts and Accessories</i> | <i>Seaswirl</i> | <i>Sensation</i> | |

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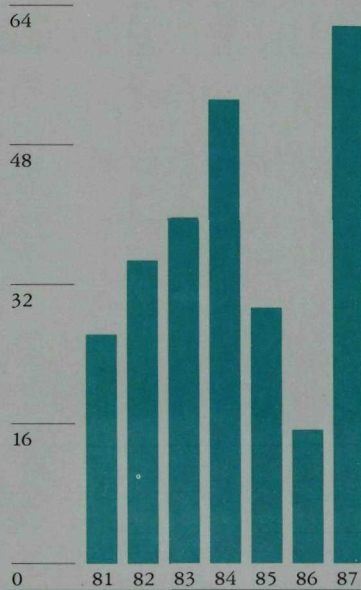
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Financial Highlights

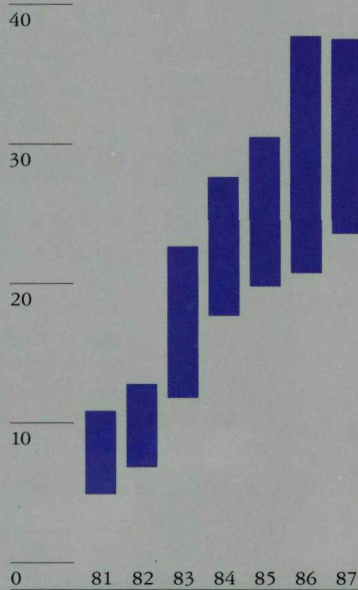
(Dollars in millions except per share data)

| | | 1987 | 1986 |
|--------------------------|---|-----------|---------|
| <i>Operating Results</i> | Net sales..... | \$1,289.2 | \$971.8 |
| | Net earnings before extraordinary items | \$ 46.8 | \$ 11.1 |
| | Extraordinary income, net..... | \$ 15.0 | \$ 3.2 |
| | Net earnings..... | \$ 61.8 | \$ 14.3 |
| | Net earnings per share..... | \$ 3.38 | \$.85 |
| | Cash flow per share from operations | \$ 5.04 | \$ 4.46 |
| <i>Capital Structure</i> | Long-term debt..... | \$ 131.9 | \$ 85.8 |
| | Stockholders' investment | \$ 517.6 | \$392.5 |
| | Stockholders' investment per share | \$ 26.67 | \$23.06 |
| <i>Returns</i> | Return on stockholders' investment | 13.9% | 3.8% |
| | Dividends per share | \$.64 | \$.64 |
| <i>Other</i> | Research and development expense | \$ 40.3 | \$ 40.9 |
| | Capital and tooling expenditure | \$ 58.7 | \$ 59.0 |
| | Average number of employees | 10,416 | 9,117 |
| | Number of stockholders..... | 5,640 | 5,802 |

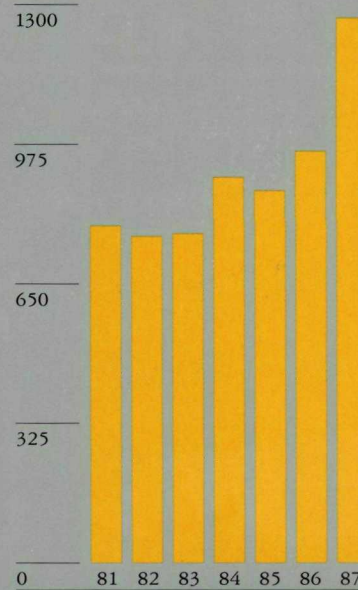
Net Earnings
\$ Millions



Range of Stock Prices
\$ Per Share



Net Sales
\$ Millions



To Our Stockholders

Fiscal year 1987 was one of the most exciting in the company's history. It was a year of growth, both internally and through acquisitions.

Net earnings for the 1987 fiscal year reached an all time high of \$61.8 million or \$3.38 per share as compared to \$14.3 million or \$.85 per share for 1986. Included in net earnings for 1987 was an extraordinary gain of \$13.1 million or \$.71 per share from the sale of tax benefit leases acquired in prior years. In 1986, there was a one-time charge against earnings of \$7.6 million after tax, or \$.45 per share, to provide for an environmental contingency.

Sales increased to \$1,289 million in 1987, a 33 percent increase over 1986 sales of \$972 million. All segments of the business enjoyed increased revenues and profitability. Sales of marine products were up 37 percent, principally as a result of our boat company acquisitions and a 75 percent increase in stern drive sales. Outboard motors also enjoyed significant sales gains.

Power mower sales increased by 6 percent and vehicle and turf care equipment sales by 32 percent.

U.S. sales of all products were up 39 percent while international sales increased 15 percent. Sales increases for international were adversely affected by record low temperatures in Europe during most of the summer.

Over the past few years, there has been an increasing preference by marine dealers and consumers for the "one-stop shopping" benefit provided by pre-packaged boat, motor and trailer combinations. After careful analysis of this trend and its potential impact on the U.S. marine marketplace, OMC decided to enter the boat business. Between December 12, 1986, and February 13, 1987, the company purchased five boat manufacturers for approximately \$120 million. These companies were Four Winns, Inc., of Cadillac, Michigan, and Athens, Texas; Carl A. Lowe Industries, Inc., of Lebanon, Missouri; Stratos Boat Company, Ltd., of Old Hickory, Tennessee; Sunbird Boat Co., Inc., of Columbia, South Carolina; and Bramco, Inc., of Culver, Oregon.

All of these companies met the requirements of our strategic plan; they were fast growing, profitable, aggressively managed and had a high quality image in the marketplace. Combined sales of these companies are currently at an annualized level in excess of \$200 million and have been growing at an annual rate of more than 40 percent over the past four years.

Due to our boat companies' continuous sales growth, OMC initiated an expansion program in 1987 that will more than double our overall boat production capacity. This program, costing approximately \$18 million, will be completed in 1988.

The integration of the boat companies into OMC's marine products operations is proceeding on course. The marine power and boat company dealer organizations are melding where appropriate, and OMC's boat, motor and trailer packages were successfully introduced in August, 1987.



In last year's annual report, we stated that we expected to reach the planned level of productivity in our new southern marine power manufacturing plants by March, 1987. The goal was achieved in timely fashion, and additional gains subsequently were made. This achievement has provided us with much needed relief from the impact of price pressures generated by our competitors in prior years. It contributed significantly to OMC's improved gross profit rate of 23 percent in 1987 as compared to 20 percent last year.

Although all marine products enjoyed increases, the exceptional sales growth of the *OMC Cobra* stern drive boosted our stern drive market position to an all time high in 1987. Due to the demand generated for the *OMC Cobra* in the past two years, production capacity is again being increased at our highly efficient stern drive plant in Lexington, Tennessee.

OMC has been a leader in the marine business since the beginning of this century. Despite increased competition on a world-wide basis during the last fifteen years, our market position remains strong. We have always been in the forefront of the marine business, and we intend to stay there.

Sales gains also were achieved in the *Cushman* industrial vehicle, *Ryan* and *Brouwer* turf care equipment and *Lawn-Boy* lawn mower segments of the company. The company continued to enjoy excellent returns on the vehicle and turf care business and looks forward to further profit improvement in the power mower business.

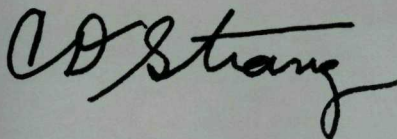
In September, 1987, OMC purchased certain assets of Gilson Brothers Company to manufacture riding mowers and other outdoor power equipment products. This strategic move extends the *Lawn-Boy* product line and further strengthens our position in the lawn care industry.

Although the company's results improved steadily throughout 1987 and reached record levels, we begin the new fiscal year with caution, inasmuch as the impact of the October, 1987, stock market decline on consumer spending is unknown. At the time this is written, demand for our products remains strong. However, if a downturn in the economy occurs, the company has prepared contingency plans, including a more restrictive operating budget. In addition, company-wide cost reduction programs instituted since 1980 have significantly reduced the corporate break-even point, which should alleviate the effect of an unexpected reduction in sales volume.

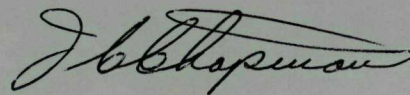
We are confident that the ongoing implementation of our strategic plan over the long term will maintain OMC's leading roles in the businesses in which it competes.

In January, 1987, Michael S. Duffey was elected treasurer to succeed Keith A. Pope who retired in December, 1986. In April, 1987, John A. Winn was named president of the OMC Boat Group and elected a vice president of the company.

November 17, 1987



Charles D. Strang
Chairman of the Board and Chief Executive Officer



James C. Chapman
President and Chief Operating Officer

Meeting the Challenge of Change

Change has become the watchword in business today as companies strive to meet the challenge of competition. OMC has implemented strategies designed to help us manage change rather than be controlled by it, and to position us for growth, now and in the years ahead. Our approach to managing change has led us to re-think the way that we manufacture our products, the products that we make and the ways that we market them.

To enhance our position in the highly price competitive marine engine market, we completed a five-year, \$100 million restructuring of our manufacturing operations, including the construction of seven new plants. The restructuring reduced our manufacturing cost and gave us more flexible tooling to better meet changing market demands.

To increase our profitability and respond to a changing marketplace, we expanded into the less capital intensive business of boat building. This move made us the third largest, publicly held recreational powerboat manufacturer in the United States. It also gave us a competitive advantage in the growing "packaged" segment of the power boat market.

Pre-rigged boat packages appeal to dealers because they eliminate most of the labor to rig a boat at the dealership. Packages also appeal to consumers, especially the increasingly important first-time boat buyers. As the baby boom generation matures into middle age, the number of potential first time buyers will nearly double.

Our Adventurent, Inc., boat rental operation is another means of attracting new marine products consumers. With 35 outlets in Florida, California, Texas, Georgia and Ohio, *Adventurent* allows potential boaters to conveniently sample OMC products.

Late in fiscal 1987, OMC launched a retail venture designed to reach out to new boaters. Called Top of the Dock, Inc., the stores will be opened in conjunction with local OMC dealers in high-volume shopping malls whose demographics closely match those of first-time buyers.

Industry competition and evolving consumer demographics are reshaping the marine products market. Managing this change demands a willingness to re-examine traditional ways of doing business. It demands the ability to seek new answers. OMC's performance demonstrates that we are both willing and able to meet the challenge of change.

VERTICAL INTEGRATION OF MARINE ENGINE MANUFACTURING AND BOAT BUILDING OPERATIONS GIVES OMC COMPETITIVE ADVANTAGES IN THE PRODUCTION AND MARKETING OF PACKAGED BOATS. THESE FACTORY-RIGGED BOAT, MOTOR AND TRAILER PACKAGES APPEAL TO BOTH MARINE DEALERS AND CONSUMERS BECAUSE OF THEIR VALUE AND CONVENIENCE.

U.S. Marine Power Products

Domestic sales of OMC marine power products in fiscal 1987 were the highest in the company's history.

Several factors contributed to the improved 1987 results. Boat builder and consumer demand for the *OMC Cobra* stern drive, introduced in 1985, continued to improve. As a result, unit shipments to boat builders last year increased 87 percent over the 1986 level. To meet the growing market demand for *OMC Cobra* products, the company boosted production capacity at its Lexington, Tennessee, plant.

OMC Cobra sales last year were fueled by the introduction of two new models in the last quarter of fiscal 1986. A 128 horsepower model based on a 2.3 litre Ford powerplant provided OMC with an advanced technology engine for the low-priced end of the stern drive boat market. The *OMC King Cobra* 460, a 340-horsepower stern drive, increased sales in the higher priced, high-performance segment of the market.

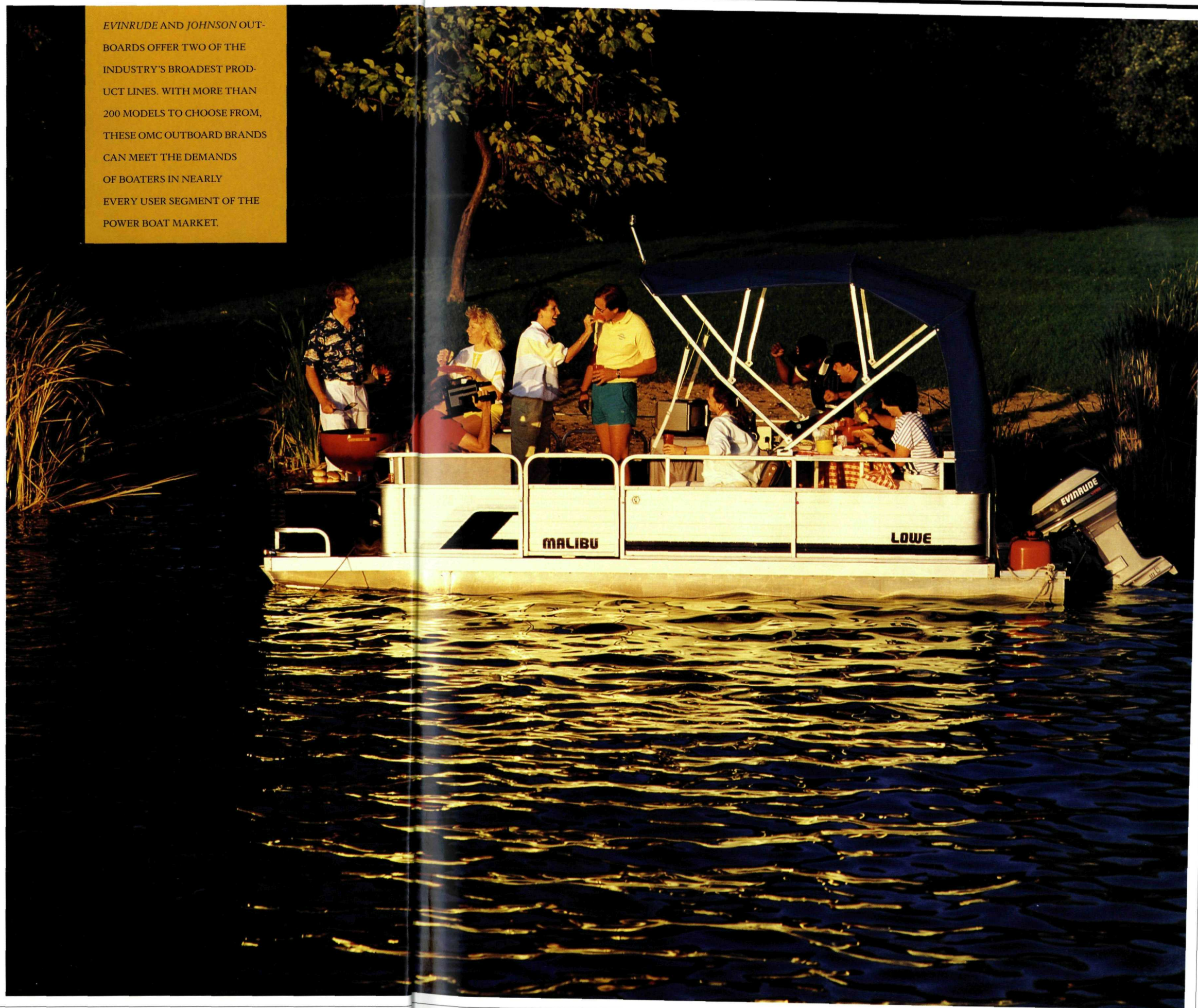
In the fourth quarter of fiscal 1987, OMC further expanded the *OMC Cobra* line with the introduction of optional counter-rotating gearcases on all V-6 and V-8 models. Counter-rotation provides handling and performance benefits in twin engine boats. The company also

broadened the high performance end of the *OMC Cobra* line, introducing the *OMC King Cobra* 350, a 270 horsepower unit, and the *OMC Cobra* 454 *High Performance*, a 370 horsepower stern drive.

In spite of pressures from competitive manufacturers, OMC has retained its position as the largest supplier of outboard motors in the U.S. and the world. Total unit shipments of *Johnson* and *Evinrude* outboards increased last year over their level in 1986. Unit shipments of the *OMC Sea Drive* (an outboard style, two-cycle powerplant equipped with an integral mounting assembly installed by the boat builder) also increased as more builders offered *OMC Sea Drive* equipped boat models.

Evinrude and *Johnson* outboards both introduced a series of lower price point motors for 1987 called the *SPL Series*. The *SPL* motors, sold in 28, 48 and 88 horsepower models, are not equipped with some of the performance and convenience features that are standard on their 30, 50 and 90 horsepower counterparts in the regular *Johnson* and *Evinrude* lines. However, they provide the same high quality. OMC dealers responded enthusiastically to the

EVINRUDE AND JOHNSON OUTBOARDS OFFER TWO OF THE INDUSTRY'S BROADEST PRODUCT LINES. WITH MORE THAN 200 MODELS TO CHOOSE FROM, THESE OMC OUTBOARD BRANDS CAN MEET THE DEMANDS OF BOATERS IN NEARLY EVERY USER SEGMENT OF THE POWER BOAT MARKET.



SPL engines, which helped dealers become more price competitive in these key horsepower segments in 1987.

New 1988 *Johnson* and *Evinrude* outboard models introduced in the last quarter of fiscal 1987 offer higher performance and more convenience. Engine displacement was increased on all *Johnson* and *Evinrude* loop-charged V-4, V-6 and V-8 outboards for faster low-end and mid-range acceleration. *QuikStart*, an electronic ignition control system, was added to these models for faster and easier starting of both hot and cold engines. *VRO*², an automatic oiling system equipped with components resistant to the damaging effects of alcohol in gasoline, was made standard on all electric remote start outboards from 40 to 300 horsepower, except *SPL* models.

Both regular and *SPL* models of *Johnson* and *Evinrude* outboards are featured as components of OMC factory-rigged boat, motor and trailer packages for 1988. OMC will provide outboards for its own boat companies' packages. The company also will encourage pre-rigging of other manufacturers' boats to accept *Johnson* and *Evinrude* outboards.

Sales of OMC Parts and Accessories increased nine

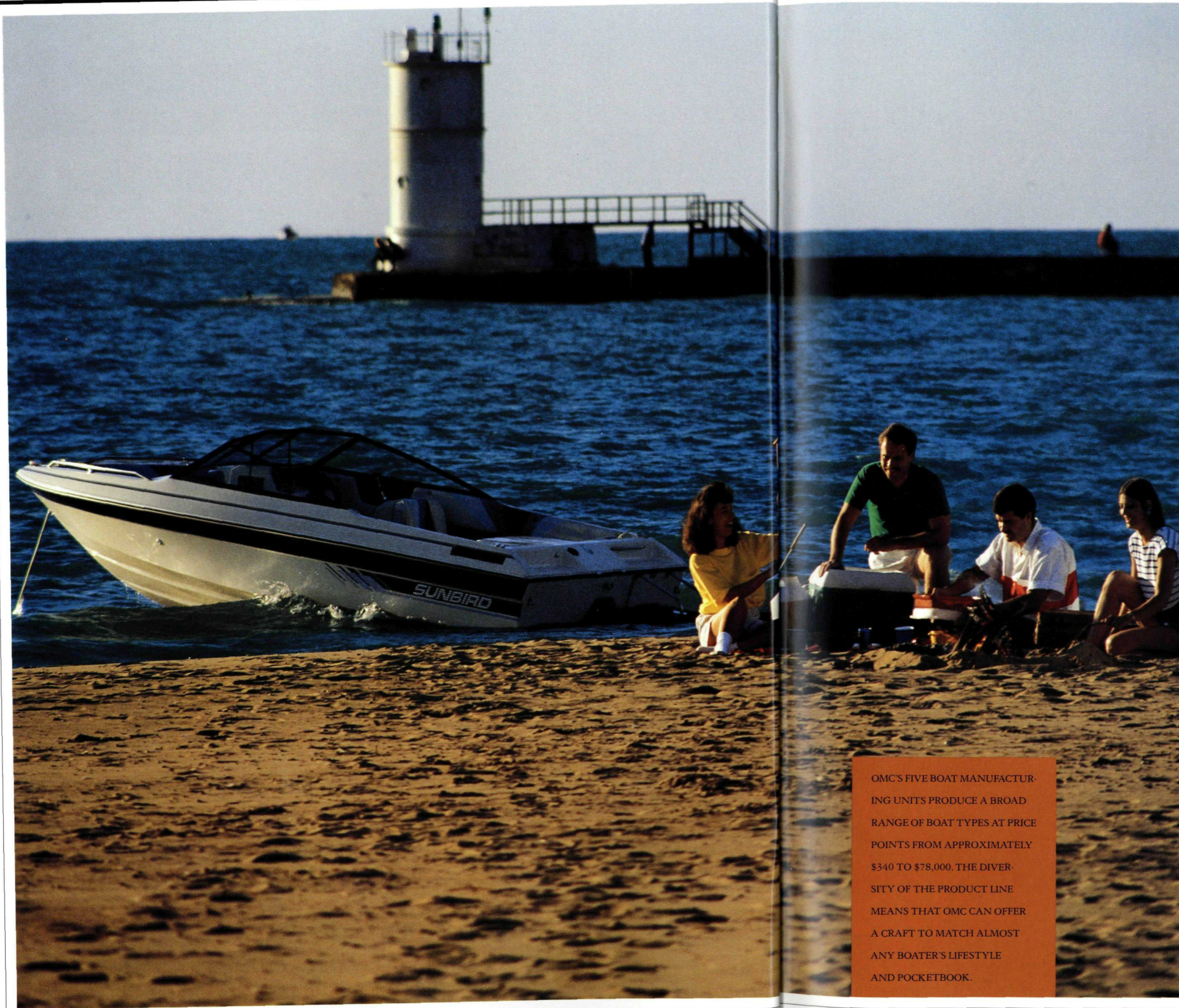
percent in 1987 compared with 1986 as dealers responded to the company's more aggressive pricing and promotion programs.

New product introductions added momentum to Parts and Accessories sales growth. In the third quarter of 1987, OMC introduced a four-blade propeller called the *OMC Shooter*. Designed for the fast-growing bass boat segment of the power boat market, the *OMC Shooter* delivers stronger acceleration at low and mid-range speeds. A new series of speedometers, tachometers and other instruments, called the *Tech Series*, makes use of advanced optical technology to provide easy reading in day or night conditions.

With the industry's broadest range of products and services, as well as its largest and most geographically diverse distribution system, OMC holds a strong competitive position in the marine power products marketplace. If the U.S. economy and consumer confidence remain strong, the company believes that further growth in U.S. marine power products sales will be achieved in fiscal 1988.



THE AVERAGE BASS FISHERMAN SPENDS \$20,000 ON EQUIPMENT, ACCORDING TO THE 525,000-MEMBER BASS ANGLER SPORTSMAN'S SOCIETY. FOR THIS MARKET SEGMENT OMC OFFERS EVINRUDE AND JOHNSON OUTBOARDS AND ELECTRIC MOTORS, STRATOS BASS BOATS, AND OMC RAKER AND OMC SHOOTER PROPELLERS.



OMC Boat Group

OMC established itself as a builder of recreational powerboats with the acquisition of five boat manufacturers during the winter of 1987. While on board for only part of the fiscal year, the new OMC Boat Group contributed \$164 million in sales to the company.

The company's goal in acquiring specific boat manufacturers was to provide a product line that would encompass all of the most popular types of boats and offer models over a wide range of price points.

This strategy was achieved through the acquisition of five brands: *Four Winns*, *Lowe*, *Stratos*, *Sunbird* and *Seaswirl*. The line includes fishing, utility and pontoon boats, high-performance bass boats, runabouts, deck boats, performance sport boats, inland and offshore fishing rigs and family cruisers. Prices of boats in the line range from \$340 to \$78,000.

All of OMC's boat brands have shown strong sales growth in the past year. In most cases, dealer demand for boats has outstripped our ability to build them. In response, OMC initi-

ated a program to increase boat production capacity. Construction of a new *Stratos* plant recently was completed, tripling their production capacity. Capacity was added to one *Four Winns* plant to produce new stern drive powered cruisers. Plant additions at *Sunbird* will double that brand's capacity to build runabout, cuddy-cabin and performance boats. In fiscal 1988, the company will add additional capacity for *Four Winns* and for *Lowe* aluminum boats.

As both a builder of recreational power boats and a manufacturer of marine power products, OMC is well positioned to take advantage of changing conditions in the marine market. Many buyers, especially first-time buyers, are entering the marketplace looking for boat-motor-trailer packages. The OMC Boat Group offers a wide range of complete marine packages to meet this growing market demand.

OMC'S FIVE BOAT MANUFACTURING UNITS PRODUCE A BROAD RANGE OF BOAT TYPES AT PRICE POINTS FROM APPROXIMATELY \$340 TO \$78,000. THE DIVERSITY OF THE PRODUCT LINE MEANS THAT OMC CAN OFFER A CRAFT TO MATCH ALMOST ANY BOATER'S LIFESTYLE AND POCKETBOOK.



OMC BUILDS SPECIALLY EQUIPPED OUTBOARDS TO MEET THE NEEDS OF COMMERCIAL FISHERMEN IN COUNTRIES AROUND THE WORLD. THIS JOHNSON 125-HORSEPOWER, TILLER-STEERED OUTBOARD DESIGNED FOR THE LATIN AMERICAN MARKET PROVIDES THE MUSCLE FOR OFFSHORE FISHING OPERATIONS.

International Group

Sales of OMC products to international markets increased 15 percent in fiscal 1987 over 1986. Market penetration for outboards improved in nearly all major market areas and earnings for the International Group improved in 1987 over the previous year.

The continued decline of the U.S. dollar relative to the Japanese yen and other foreign currencies added momentum to the International Group's sales and earnings growth. The dollar's decline helped make OMC products more price competitive. Major Japanese competitors increased their prices in 1987. Their price increases, however, did not reflect the full measure of the yen revaluation. Consequently, OMC expects the Japanese manufacturers to feel continued pressure to increase price. The company believes these conditions may set the stage for additional sales growth in 1988.

Increased international sales of higher horsepower outboards and OMC *Cobra* stern drives

contributed to the improved sales and earnings results.

Earnings performance in 1987 also benefited from cost reduction programs. The International Group is continuing its effort to improve profitability by cutting operating costs. Programs designed to improve distribution efficiency in Canada and Europe were initiated in 1987. The programs should improve the profitability of these operations in the years ahead.

The company's acquisition of U.S. boat manufacturing operations in 1987 created additional opportunities for revenue and earnings growth in international markets. In late 1987, OMC introduced three of its boat brands into European markets. The company is evaluating opportunities to launch boat sales in other markets, including sales of factory-rigged boat, motor and trailer packages.

OMC has the most extensive international distribution system in the marine industry. The company is using the strength of this system to support its sales of outboards, stern drives, boats and accessories through carefully developed programs in international markets.

Power Lawn Products

Worldwide sales of the company's power lawn mowers increased by six percent to \$116 million in fiscal 1987 from \$109 million in 1986. In the U.S., OMC's power mower sales increased nine percent in 1987 over the previous year.

As a result of the product group's marketing effort, *Lawn-Boy* increased its market penetration for the second consecutive year. Unit sales of *Lawn-Boy* walk-behind rotary mowers increased 15.5 percent, well above the industry average of 9.4 percent for walk-behind mowers.

The effort to reduce inventories at the distributor and dealer levels, begun in 1986 with a fourth quarter increase in marketing spending, continued in 1987. This effort also resulted in a significant increase in dealers' retail sales.

In 1987, *Lawn-Boy* embarked on a program designed to transform it from a single line supplier of walk-behind rotary powered powers into a full line manufacturer of outdoor power equipment. In the fourth quarter, the company acquired certain assets of Gilson Brothers Company of Plymouth, Wisconsin, a manufacturer of lawn care products. With the acquisition, *Lawn-Boy* expanded its product

line to include rear engine riding mowers and lawn and garden tractors, two of the industry's fastest growing product categories, as well as garden tillers and snow throwers.

Consumer research has shown that *Lawn-Boy* is one of the best known brand names in the industry. Consequently, all former *Gilson* brand products now will carry the *Lawn-Boy* trademark. The product group expects these line extensions to increase its sales of *Lawn-Boy* branded products by approximately 50 percent in 1988.

The Gilson assets purchased also include the *Sensation* line of commercial mowers. These mowers are designed for use by professional lawn maintenance services, the fastest growing segment of the lawn care market. Known and respected for quality and durability, the *Sensation* line will strengthen the company's position in the commercial mower market.

With the Gilson acquisition, the already strong *Lawn-Boy* dealer organization is expected to grow by 25 percent to nearly 9,000 dealers.

LAWN-BOY, ONE OF THE BEST KNOWN BRANDS OF WALK-BEHIND ROTARY MOWERS, WILL TRANSFER THE VALUE OF ITS BRAND NAME TO A FULL LINE OF OUTDOOR POWER EQUIPMENT, INCLUDING REAR ENGINE RIDING MOWERS, TRACTORS, GARDEN TILLERS AND SNOW THROWERS.



Vehicles and Turf Care Equipment

Sales from OMC's vehicle and turf care operations increased 32 percent in 1987 over 1986, continuing a six-year record of sales growth for the OMC Lincoln division. Sales for the past fiscal year were \$78 million, compared with \$59 million in 1986. Operating earnings increased to \$11 million from \$9 million in 1986.

Much of the sales and earnings improvement was due to the acquisition of Brouwer Turf Equipment, Ltd., late in fiscal 1986. Brouwer is the world's leading manufacturer of sod harvesting equipment. The improved results also are due to increased sales of *Ryan* and *Cushman* turf care products.

Total industry sales of industrial and commercial vehicles experienced slow growth in 1987. *Cushman* sales, however, continued to be strong in these markets, reflecting the brand's well-established reputation for quality and durability.

Product innovation continued at OMC Lincoln in 1987. In the second quarter, the division introduced the *Ryan Mataway Overseeder*. The unit is a special attachment for the *Ryan Mataway* power rake. Together, the units allow an operator to dethatch and re-seed a turf area in a single operation.

In the last quarter, OMC Lincoln introduced the *Ryan GA 30*, a precision aerating machine that features "sit-down" operation and on-the-go aerating

adjustment. Also new in the last quarter was the *Lawnaire 28*, a highly maneuverable, three-wheel, walk-behind aerator that offers the high quality, reciprocating action of larger machines. For the golf course market segment, a new *Cushman Core Harvester* attachment mechanically gathers aeration cores from tees and greens. The unit dramatically reduces the time and labor required to remove cores, which traditionally has been done by hand labor.

Other products introduced in the fourth quarter were two water-cooled *Cushman Front Line* commercial mowers. The *Brouwer 1988* line of reel mowers also was expanded with new three, five and seven-gang tractor mounted mowers.

Innovative marketing complemented product innovation in 1987. Participation in the division's College and University Turf Equipment Program increased by 50 percent over its 1986 level. This program, administered by dealers, provides free use of *Ryan* and *Cushman* equipment to educational institutions with horticulture, landscape and turfgrass programs. It introduces the company's equipment and dealers to students who will become purchase decision makers in the near future.

BROUWER SOD HARVESTING AND LOADING EQUIPMENT IMPROVES EFFICIENCY AND REDUCES LABOR COSTS AT THE HUBER RANCH SOD NURSERY, A MAJOR SOD PRODUCER AND BROUWER DISTRIBUTOR IN NORTHERN INDIANA. BROUWER ENJOYS A REPUTATION FOR TECHNOLOGICAL LEADERSHIP IN THE SOD GROWING INDUSTRY.



Financial Review

Operations

1987 Net earnings in 1987 were \$61.8 million or \$3.38 per share compared to \$14.3 million or \$.85 per share in 1986. Sales of \$1,289.2 million for 1987 increased 32.7% over 1986 sales of \$971.8 million. In the U.S., all product lines contributed to the 38.7% sales increase to \$1,008 million compared to \$727 million in the prior year. During the 1987 fiscal year OMC acquired five boat manufacturers, and the sales by these companies along with substantially higher unit sales of *OMC Cobra* stern drives were the largest contributors. International sales increased 14.8% due primarily to strengthening foreign currencies, improved product mix and higher prices. Net earnings include extraordinary credits of \$3.1 million in 1987 and \$3.3 million in 1986 for income tax benefits from utilizing non-U.S. tax loss carryforwards. Net earnings for 1987 also include extraordinary income of \$13.1 million from the sale of tax benefit leases acquired in prior years and extraordinary expense of \$1.1 million resulting from the early extinguishment of debt. The Company adopted Statement of Financial Accounting Standards No. 87 with respect to its pension plans effective October 1, 1986, resulting in increased net earnings of \$2.2 million in 1987.

Gross earnings were \$300.8 million in 1987 as compared to \$192.9 million in 1986, and as a percent of sales improved to 23.3% from 19.8% in 1986. These improvements were primarily the result of improved manufacturing efficiencies, increased volumes and reduced price discounting on U.S. outboard motors.

Operating expenses increased to \$192.3 million compared to \$157.6 million due primarily to newly acquired boat manufacturing companies and increased marketing expenses.

Non-operating items reflect net expense of \$15.2 million in 1987 versus \$24.2 million in 1986. Interest expense increased to \$26 million from \$14.4 million due primarily to additional debt used to finance acquisitions and interest paid on prior years' tax adjustments. This was partially offset by an increase in interest income of \$4.8 million over last year. Foreign exchange

fluctuations resulted in a gain of \$4 million in 1987 compared to a loss of \$1.6 million in 1986. Earnings in 1986 were affected by a \$15 million non-recurring charge for an environmental contingency. No such charge affected earnings in 1987.

The increase in the effective tax rate to 49.9% this year from .3% last year is explained in Note 15 to the Consolidated Financial Statements incorporated herein by reference.

1986 Sales in fiscal 1986 increased 10% to \$971.8 million from \$880.2 million in fiscal 1985. U.S. sales increased 9% due primarily to increased sales of stern drive engines. International sales increased 16% due primarily to stronger non-U.S. currency values, increased selling prices and improved product mix. Gross earnings were \$192.9 million in fiscal 1986 as compared to \$192.7 million in fiscal 1985 and as a percent of sales declined to 20% from 22% in fiscal 1985.

Net earnings in fiscal 1986 were \$14.3 million compared to \$29.4 million in fiscal 1985. This decrease in earnings was due primarily to a special charge taken in fiscal 1986 for an environmental contingency of \$15.0 million (pre-tax) which reduced earnings \$7.6 million after provision for income taxes, continued price pressures on U.S. marine products and costs to bring new manufacturing plants up to reasonable operating efficiencies. Net earnings include an extraordinary credit of \$3.3 million in fiscal 1986 for income tax benefits from utilizing foreign tax loss carryforwards.

Operating expenses increased to \$157.6 million from \$131.4 million for fiscal 1985 due primarily to expanded marketing programs designed to improve the Company's competitive position in the marketplace.

Non-operating items reflect net expense of \$24.2 million in fiscal 1986 versus \$7.7 million in fiscal 1985. This includes the special charge for an environmental contingency referred to above. In addition, disposals of excess property and equipment resulted in \$3.6 million more income than in fiscal 1985 and foreign exchange fluctuations resulted in a loss of \$1.6 million in fiscal 1986 compared to a gain of \$1.9 million in fiscal 1985.

The effective income tax rate decreased to 0.3% in fiscal 1986 from 45.1% in fiscal 1985 primarily because income tax credits (investment, research and develop-

ment and foreign tax) remained relatively constant while pre-tax earnings were substantially lower in fiscal 1986 than in fiscal 1985 and because of the inability of the Company to fully utilize certain tax benefits associ-

ated with the operating losses of certain foreign subsidiaries in fiscal 1985. See Note 15 to the Consolidated Financial Statements incorporated herein by reference.

Financial Condition

Working capital at September 30, 1987, was \$335.3 million compared to \$302.7 million at the end of 1986. Customer receivables were \$31.7 million higher than at September 30, 1986, due primarily to acquisitions and increased wholesale financing of inventory by a captive finance division. Prepaid expenses decreased to \$23.2 million from \$31.3 million at September 30, 1986, due primarily to lower contributions to the Voluntary Employee Benefit Association (VEBA). There were no short term loans outstanding at the end of 1987 compared to \$32.5 million at the end of 1986. Accounts payable increased \$29 million from September 30, 1986, due primarily to acquisition liabilities assumed, increased productive material purchases and increased outstanding checks. Accrued and other liabilities increased \$45.2 million from September 30, 1986, due primarily to deferred acquisition payments, assumed liabilities from acquisitions and increased accrued interest expense.

Product tooling increased \$7.9 million primarily from acquisitions. The increase in goodwill and intangibles of \$98.8 million over September 1986 levels was also due to acquisitions. Other assets decreased \$12.6 million from last year due primarily to the sale of tax benefit leases and reductions in prepaid taxes. Plant and equipment, net, increased \$36.2 million due primarily to expenditures at new plants and property obtained from acquisitions.

Long-term debt increased to \$131.9 million from \$85.8 million in 1986. During 1987, the Company issued \$100 million of debentures and prepaid notes and industrial revenue bonds totaling \$55 million. Also in 1987, the Company issued 2.3 million shares of common stock for \$68.9 million. Proceeds from the debenture and stock issuances were used to finance

acquisitions, reduce commercial paper indebtedness, prepay previously outstanding debt and for general corporate purposes.

At the end of 1987, 79% of capitalization was provided from stockholders' investment with the remaining 21% provided from long-term debt. On October 26, 1987, the Company announced a program to repurchase up to \$50 million of its common stock in the open market or in privately negotiated transactions.

Due to the seasonal nature of the Company's business, inventory and accompanying short-term borrowing to satisfy working capital requirements are usually at their highest levels in the second and third fiscal quarters and decline thereafter as the Company's products enter their peak selling seasons. At the end of 1987, the Company had in place \$170 million of credit lines and a Revolving Credit Agreement that provides for borrowings of \$300 million from October 1 through May 31 and \$150 million during other periods. The Company believes it has adequate capital resources to conduct its business.

Working capital provided from operations was \$92.2 million in 1987 compared to \$75.7 million in 1986. Additions to plant, equipment and tooling, exclusive of acquisitions, were approximately \$59 million in both years.

The Company has never failed to pay a dividend since the present company was formed in 1936. In 1987, the Company paid out \$11.7 million in dividends versus \$10.9 million in 1986.

In fiscal year 1987, the Company purchased five boat manufacturers for \$120 million. The Company also acquired certain assets of a manufacturer of lawn and turf care equipment for \$29 million. See Note 8 to the Consolidated Financial Statements incorporated herein by reference.

Subsequent to September 30, 1987, the market value of pension plan assets declined as a result of changes in the equity markets. These events should not affect the ability of the Company to meet benefit obligations.

Ten-Year Summary of Selected Financial Data

| | 1987 | 1986 | 1985 | 1984 | 1983 | 1982 | 1981 | 1980 | 1979 | 1978 |
|---|-------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <i>Operations</i> (Dollars in thousands) | | | | | | | | | | |
| Net Sales | \$1,289,152 | \$971,828 | \$880,205 | \$911,195 | \$779,896 | \$772,825 | \$795,595 | \$687,398 | \$741,151 | \$703,853 |
| Gross Earnings | 300,774 | 192,888 | 192,709 | 227,918 | 206,837 | 191,334 | 196,541 | 144,735 | 162,015 | 170,251 |
| Selling, General and Administrative Expense | 192,343 | 157,603 | 131,419 | 128,585 | 121,429 | 124,958 | 124,606 | 121,853 | 118,868 | 106,968 |
| Research and Development Expense | 40,255 | 40,932 | 39,709 | 37,873 | 34,118 | 27,812 | 23,373 | 24,531 | 23,814 | 21,944 |
| Earnings from Operations | 108,431 | 35,285 | 61,290 | 99,333 | 85,408 | 66,376 | 71,935 | 22,882 | 43,147 | 63,283 |
| Interest Expense | 25,961 | 14,409 | 13,865 | 11,414 | 13,361 | 15,997 | 17,887 | 24,253 | 17,855 | 13,317 |
| Earnings before Provision for Income Tax and Extraordinary Items | 93,263 | 11,112 | 53,553 | 102,142 | 79,237 | 61,574 | 61,989 | 2,492 | 28,565 | 46,816 |
| Net Earnings before Extraordinary Items | 46,759 | 11,080 | 29,378 | 52,736 | 39,266 | 33,982 | 26,949 | 2,344 | 16,736 | 25,360 |
| Net Earnings | 61,794 | 14,339 | 29,378 | 52,736 | 39,266 | 33,982 | 26,949 | 2,344 | 16,736 | 26,185 |
| Depreciation and Amortization | 48,895 | 47,123 | 38,122 | 33,595 | 28,913 | 29,538 | 30,833 | 33,013 | 32,401 | 32,004 |
| <i>Financial Position</i> (Dollars in thousands) | | | | | | | | | | |
| Cash and Investments | \$ 48,644 | \$ 9,647 | \$ 47,768 | \$75,520 | \$127,135 | \$79,793 | \$88,771 | \$34,454 | \$15,853 | \$30,920 |
| Receivables (net) | 318,221 | 286,523 | 213,833 | 174,000 | 139,377 | 146,714 | 152,165 | 121,464 | 117,814 | 95,451 |
| Inventories | 186,242 | 187,707 | 178,109 | 178,765 | 173,785 | 176,424 | 184,788 | 194,122 | 221,668 | 199,417 |
| Current Liabilities | 241,007 | 212,413 | 172,270 | 150,072 | 158,856 | 135,413 | 160,728 | 113,078 | 125,193 | 105,807 |
| Working Capital | 335,270 | 302,739 | 310,800 | 307,251 | 302,471 | 299,767 | 287,837 | 259,496 | 251,731 | 236,546 |
| Plant and Equipment (net) | 240,712 | 204,502 | 190,523 | 173,879 | 152,911 | 135,713 | 139,516 | 149,324 | 157,136 | 158,801 |
| Total Assets | 966,439 | 775,009 | 720,686 | 671,634 | 649,107 | 592,824 | 604,004 | 542,193 | 559,742 | 532,802 |
| Long-term Debt | 131,876 | 85,834 | 86,277 | 90,915 | 99,112 | 105,419 | 112,146 | 121,000 | 123,744 | 124,154 |
| Total Stockholders' Investment | 517,573 | 392,478 | 385,175 | 366,660 | 345,919 | 315,006 | 294,338 | 273,264 | 276,768 | 271,671 |
| <i>Per Common Share</i> (Dollars) | | | | | | | | | | |
| Average Number of Common Shares Outstanding (thousands) | 18,303 | 16,965 | 16,888 | 17,459 | 17,404 | 16,878 | 16,724 | 16,709 | 16,709 | 16,697 |
| Net Earnings | \$3.38 | \$0.85 | \$1.74 | \$3.02 | \$2.26 | \$2.01 | \$1.61 | \$0.14 | \$1.00 | \$1.57 |
| Dividends Paid | 0.64 | 0.64 | 0.64 | 0.58 | 0.4675 | 0.4125 | 0.3625 | 0.35 | 0.70 | 0.70 |
| Market Price—High | 38.00 | 38.50 | 31.50 | 27.62 | 23.38 | 13.12 | 11.25 | 9.06 | 11.56 | 11.75 |
| Market Price—Low | 23.87 | 21.37 | 19.62 | 18.38 | 12.56 | 6.88 | 5.38 | 4.44 | 7.56 | 9.38 |
| Stockholders' Investment (Year-end) | 26.67 | 23.06 | 22.77 | 21.79 | 19.71 | 18.23 | 17.57 | 16.35 | 16.56 | 16.27 |
| <i>Other Statistics</i> (Dollars in Thousands) | | | | | | | | | | |
| Operating Earnings as a Percent to Sales | 8.4% | 3.6% | 7.0% | 10.9% | 11.0% | 8.6% | 9.0% | 3.3% | 5.8% | 9.0% |
| Net Earnings as a Percent to Sales | 4.8% | 1.5% | 3.3% | 5.8% | 5.0% | 4.4% | 3.4% | 0.3% | 2.3% | 3.7% |
| Return on Average Stockholders' Investment | 13.9% | 3.8% | 8.0% | 14.8% | 12.2% | 11.5% | 9.7% | 0.8% | 6.1% | 9.9% |
| Return on Average Total Capitalization | 10.6% | 2.9% | 6.2% | 11.5% | 9.0% | 8.1% | 6.5% | 0.6% | 4.1% | 6.9% |
| Debt/Total Capitalization (%) | 20.5% | 24.6% | 20.1% | 21.0% | 23.4% | 25.9% | 28.6% | 34.3% | 35.3% | 31.8% |
| Capital Expenditures | \$36,053 | \$37,531 | \$41,403 | \$44,846 | \$38,700 | \$20,416 | \$11,034 | \$12,119 | \$18,257 | \$25,299 |
| Tooling Expenditures | 22,682 | 21,471 | 22,662 | 19,197 | 16,817 | 12,544 | 7,866 | 11,051 | 10,322 | 14,856 |

Index to Financial Statements

| | |
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The financial section of the 1987 Annual Report is identical in all material respects with the Company's Annual Report on the Form 10-K which has been filed with the Securities and Exchange Commission. The exhibit index and exhibits required by Item 14(a)(3) of the Form 10-K are not included in the Annual Report.

Schedules V, VI, VIII, IX and X are omitted because

the required information is included in the Consolidated Financial Statements or notes thereto. Schedules I, II, III, IV, VII, XI, XII and XIII are omitted because they are not required or inapplicable.

Individual financial statements have been omitted because consolidated statements have been prepared for all of the Company's wholly owned subsidiaries.

Report of Independent Public Accountants

To the Stockholders, Outboard Marine Corporation:

We have examined the statement of consolidated financial position of Outboard Marine Corporation (a Delaware corporation) and subsidiaries as of September 30, 1987 and 1986, and the related statements of consolidated earnings, changes in consolidated financial position and changes in consolidated stockholders' investment for each of the three years in the period ended September 30, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Outboard Marine Corporation and subsidiaries as of September 30, 1987 and 1986, and the results of their operations

and the changes in their financial position for each of the three years in the period ended September 30, 1987, in conformity with generally accepted accounting principles, which, except for the change with which we concur, in the method of determining pension costs as discussed in Note 12 to Consolidated Financial Statements, were applied on a consistent basis.

Arthur Andersen & Co.

Arthur Andersen & Co.
Milwaukee, Wisconsin
November 2, 1987

Statement Of Consolidated Earnings

| Years ended September 30 | (Dollars in thousands except amounts per share) | | | Percent to net sales | | |
|--|--|-----------|-----------|-------------------------|-------|-------|
| | 1987 | 1986 | 1985 | 1987 | 1986 | 1985 |
| <i>Net Sales</i> | \$1,289,152 | \$971,828 | \$880,205 | 100.0 | 100.0 | 100.0 |
| <i>Cost of Goods Sold</i> including research and development..... | 988,378 | 778,940 | 687,496 | 76.7 | 80.2 | 78.1 |
| Gross earnings..... | 300,774 | 192,888 | 192,709 | 23.3 | 19.8 | 21.9 |
| <i>Operating Expenses:</i> | | | | | | |
| Selling, general and administrative..... | 192,343 | 157,603 | 131,419 | 14.9 | 16.2 | 14.9 |
| Earnings from operations..... | 108,431 | 35,285 | 61,290 | 8.4 | 3.6 | 7.0 |
| <i>Non-operating Expense (Income):</i> | | | | | | |
| Interest expense..... | 25,961 | 14,409 | 13,865 | 2.0 | 1.5 | 1.6 |
| Special charge for environmental contingency..... | — | 15,000 | — | — | 1.5 | — |
| Other, net..... | (10,793) | (5,236) | (6,128) | (.8) | (.5) | (.7) |
| | 15,168 | 24,173 | 7,737 | 1.2 | 2.5 | .9 |
| Earnings before provision for income taxes and extraordinary items..... | 93,263 | 11,112 | 53,553 | 7.2 | 1.1 | 6.1 |
| <i>Provision for Income Taxes</i> | 46,504 | 32 | 24,175 | 3.6 | — | 2.8 |
| Net earnings before extraordinary items..... | 46,759 | 11,080 | 29,378 | 3.6 | 1.1 | 3.3 |
| <i>Extraordinary Income (Expense):</i> | | | | | | |
| Utilization of non-U.S. tax loss carryforwards..... | 3,077 | 3,259 | — | .3 | .4 | — |
| Early extinguishment of debt..... | (1,097) | — | — | (.1) | — | — |
| Sale of tax benefit leases..... | 13,055 | — | — | 1.0 | — | — |
| | 15,035 | 3,259 | — | 1.2 | .4 | — |
| Net earnings for the year..... | \$ 61,794 | \$ 14,339 | \$ 29,378 | 4.8 | 1.5 | 3.3 |
| <i>Net Earnings Per Share of Common Stock</i> based on the average shares outstanding—18,303,476 in 1987, 16,965,493 in 1986 and 16,887,610 in 1985: | | | | | | |
| Before extraordinary items..... | \$2.56 | \$.66 | \$1.74 | | | |
| Extraordinary income, net..... | .82 | .19 | — | | | |
| Net..... | \$3.38 | \$.85 | \$1.74 | | | |

The accompanying notes are an integral part of this statement.

Statement Of Consolidated Financial Position

(Dollars in thousands)
1987 1986

September 30

*Assets**Current Assets:*

Cash and investments, at cost which approximates market..... \$ 48,644 \$ 9,647

Receivables..... 321,285 288,615

Less— Reserve for doubtful receivables..... 3,064 2,092

318,221 286,523

Inventories..... 186,242 187,707

Prepaid expenses..... 23,170 31,275

Total current assets..... 576,277 515,152

Product Tooling, less accumulated amortization..... 37,120 29,191*Goodwill*..... 66,470 1,403*Intangibles*..... 33,689 —*Other Assets*..... 12,171 24,761*Plant and Equipment*, at cost:

Leasehold improvements..... 4,316 4,513

Land and land improvements..... 15,796 13,767

Buildings and fixtures..... 119,779 97,937

Machinery and equipment..... 333,979 304,868

Construction in progress..... 9,980 11,485

483,850 432,570

Less— Accumulated depreciation..... 243,138 228,068

240,712 204,502

\$966,439 \$775,009

The accompanying notes are an integral part of this statement.

| | September 30 | (Dollars in thousands) | |
|---|--|------------------------|-----------|
| | | 1987 | 1986 |
| <i>Liabilities and Stockholders' Investment</i> | <i>Current Liabilities:</i> | | |
| | Notes payable..... | \$ — | \$ 32,487 |
| | Accounts payable— | | |
| | Trade..... | 99,815 | 67,370 |
| | Other..... | 8,545 | 11,956 |
| | | 108,360 | 79,326 |
| | Accrued liabilities— | | |
| | Compensation and pension programs..... | 22,981 | 16,527 |
| | Taxes, other than income taxes..... | 5,045 | 4,699 |
| | Deferred acquisition payments..... | 24,700 | — |
| | Other, including interest of \$7,816 in 1987 and \$2,883 in 1986..... | 53,606 | 39,868 |
| | | 106,332 | 61,094 |
| | Accrued income taxes..... | 17,921 | 3,145 |
| | Deferred income taxes..... | 6,794 | 26,931 |
| | Current maturities and sinking fund requirements of long-term debt..... | 1,600 | 9,430 |
| | Total current liabilities..... | 241,007 | 212,413 |
| | <i>Long-term Debt</i> | 131,876 | 85,834 |
| | <i>Deferred And Other Non-current Income Taxes</i> | 14,625 | 36,352 |
| | <i>Other Non-current Liabilities</i> | 61,358 | 47,932 |
| | <i>Stockholders' Investment:</i> | | |
| | Preferred stock—authorized 3,000,000 shares of \$10.00 par value, none issued..... | — | — |
| | Common stock—authorized 30,000,000 shares at \$.15 par value each, issued | | |
| | 19,406,225 in 1987 and 17,018,139 in 1986..... | 2,911 | 2,553 |
| | Capital in excess of par value of common stock..... | 99,020 | 28,400 |
| | Accumulated earnings employed in the business..... | 428,137 | 377,995 |
| | Cumulative translation adjustments..... | (12,495) | (16,470) |
| | Total Stockholders' Investment..... | 517,573 | 392,478 |
| | | \$966,439 | \$775,009 |

The accompanying notes are an integral part of this statement.

Statement Of Changes In Consolidated Financial Position

| | | (Dollars in thousands) | | |
|--|---|------------------------|------------|------------|
| Years ended September 30 | | 1987 | 1986 | 1985 |
| <i>Source of Working Capital:</i> | From operations— | | | |
| | Net earnings before extraordinary items..... | \$ 46,759 | \$ 11,080 | \$ 29,378 |
| | Items not affecting working capital currently— | | | |
| | Depreciation..... | 25,652 | 23,365 | 20,979 |
| | Amortization of product tooling..... | 23,243 | 23,758 | 17,143 |
| | Amortization of goodwill and intangibles..... | 4,727 | — | — |
| | Special charge for environmental contingency..... | — | 15,000 | — |
| | (Gain) Loss on disposal of plant and equipment..... | (1,385) | (2,893) | 751 |
| | Other—principally deferred items..... | (1,908) | 2,131 | 10,611 |
| | Total from operations before extraordinary items..... | 97,088 | 72,441 | 78,862 |
| | Extraordinary items— | | | |
| | Utilization of non-U.S. tax loss carryforwards..... | 3,077 | 3,259 | — |
| | Early extinguishment of debt..... | (1,097) | — | — |
| | Sale of tax benefit leases..... | 13,055 | — | — |
| | Elimination of deferred items relating to tax benefit leases..... | (19,905) | — | — |
| | Total from operations..... | 92,218 | 75,700 | 78,862 |
| | Proceeds from— | | | |
| | Long-term debt issued..... | 100,438 | 8,722 | 6,253 |
| | Disposal of plant and equipment..... | 2,749 | 4,015 | 2,986 |
| | Common stock issued and options exercised..... | 70,978 | 1,821 | 1,009 |
| | Total source of working capital..... | 266,383 | 90,258 | 89,110 |
| <i>Working Capital Used:</i> | Additions to plant and equipment..... | 36,053 | 37,531 | 41,403 |
| | Product tooling expenditures..... | 22,682 | 21,471 | 22,662 |
| | Payment and reclassification of non-current income taxes..... | (814) | 19,087 | — |
| | Long-term debt paid or maturing currently..... | 60,189 | 9,165 | 10,891 |
| | Dividends..... | 11,652 | 10,858 | 10,812 |
| | Acquisitions (net of working capital of \$24,875)..... | 124,024 | — | — |
| | Other—principally increase in non-current liabilities..... | (19,934) | 207 | (207) |
| | Total working capital used..... | 233,852 | 98,319 | 85,561 |
| Increase (Decrease) in working capital..... | | \$ 32,531 | \$ (8,061) | \$ 3,549 |
| <i>Analysis of Changes in Working Capital:</i> | Increase (Decrease) in current assets— | | | |
| | Cash and investments..... | \$ 38,997 | \$(38,121) | \$(27,752) |
| | Receivables..... | 31,698 | 72,690 | 39,833 |
| | Inventories..... | (1,465) | 9,598 | (656) |
| | Prepaid expenses..... | (8,105) | (12,085) | 14,322 |
| | (Increase) Decrease in current liabilities— | | | |
| | Notes payable..... | 32,487 | (32,487) | — |
| | Accounts payable..... | (29,034) | (12,779) | (14,618) |
| | Accrued liabilities..... | (45,238) | 2,188 | 884 |
| | Accrued income taxes..... | (14,776) | 12,912 | (2,934) |
| | Deferred income taxes..... | 20,137 | (11,297) | (1,114) |
| | Current maturities and sinking fund requirements of long-term debt..... | 7,830 | 1,320 | (4,416) |
| | Increase (Decrease) in working capital..... | \$ 32,531 | \$ (8,061) | \$ 3,549 |

The accompanying notes are an integral part of this statement.

Statement Of Changes In Consolidated Stockholders' Investment

(Dollars in thousands except amounts per share)

| Years ended September 30 | Common Stock | | Capital in Excess of Par Value of Common Stock | Accumulated Earnings Employed in the Business | Cumulative Translation Adjustments | Treasury Stock |
|---|--------------|---------|--|---|------------------------------------|----------------|
| | Shares | Amount | | | | |
| <i>Balance</i> — September 30, 1984..... | 16,830,285 | \$2,525 | \$26,635 | \$355,948 | \$(18,448) | \$ — |
| Net earnings..... | — | — | — | 29,378 | — | — |
| Dividends — \$.64 per share..... | — | — | — | (10,812) | — | — |
| Shares issued upon stock option exercises..... | 106,728 | 16 | 603 | — | — | — |
| Shares issued to Employees Stock Ownership Trust..... | 17,243 | 2 | 388 | — | — | — |
| Treasury stock purchased (38,921 shares)..... | — | — | — | — | — | (861) |
| Translation adjustments..... | — | — | — | — | (199) | — |
| <i>Balance</i> — September 30, 1985..... | 16,954,256 | 2,543 | 27,626 | 374,514 | (18,647) | (861) |
| Net earnings..... | — | — | — | 14,339 | — | — |
| Dividends — \$.64 per share..... | — | — | — | (10,858) | — | — |
| Shares issued upon stock option exercises..... | 98,325 | 15 | 1,364 | — | — | — |
| Shares issued to Employees Stock Ownership Trust..... | 12,239 | 2 | 440 | — | — | — |
| Treasury stock purchased (7,760 shares)..... | — | — | — | — | — | (176) |
| Treasury stock retired..... | (46,681) | (7) | (1,030) | — | — | 1,037 |
| Translation adjustments..... | — | — | — | — | 2,177 | — |
| <i>Balance</i> — September 30, 1986..... | 17,018,139 | 2,553 | 28,400 | 377,995 | (16,470) | — |
| Net earnings..... | — | — | — | 61,794 | — | — |
| Dividends — \$.64 per share..... | — | — | — | (11,652) | — | — |
| Shares issued upon stock option exercises..... | 73,496 | 11 | 1,567 | — | — | — |
| Shares issued to Employees Stock Ownership Trust..... | 14,590 | 2 | 490 | — | — | — |
| Sale of common stock..... | 2,300,000 | 345 | 68,563 | — | — | — |
| Translation adjustments..... | — | — | — | — | 3,975 | — |
| <i>Balance</i> — September 30, 1987..... | 19,406,225 | \$2,911 | \$99,020 | \$428,137 | \$(12,495) | \$ — |

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

(1) *Accounting Policies* The major accounting policies followed by the Company are described in the accompanying notes:

| | | | |
|--|------|-------------------------------|----|
| | Note | Goodwill and Intangibles..... | 8 |
| Basis of Consolidation..... | 2 | Stock Options..... | 10 |
| Translation of Non-U.S. Subsidiary Financial Statements..... | 3 | Research and Development..... | 11 |
| Inventories..... | 5 | Product Tooling..... | 11 |
| Depreciation of Plant and Equipment..... | 6 | Warranty..... | 11 |
| Maintenance and Repair..... | 6 | Pension Program..... | 12 |
| | | Deferred Income Taxes..... | 15 |
| | | Investment Tax Credit..... | 15 |

(2) *Basis of Consolidation* The accounts of all subsidiaries are included in the Consolidated Financial Statements. Intercompany accounts, transactions and earnings have been eliminated in consolidation. At September 30, 1987, all significant subsidiary companies are wholly owned.

(3) *Translation of Non-U.S. Subsidiary Financial Statements* The financial statements of non-U.S. subsidiaries were translated to U.S. dollars substantially as follows: all assets and liabilities at year end exchange rates; sales and expenses at average exchange rates; stockholders' investment at historical exchange rates. Gains and losses from translating non-U.S. financial statements are recorded directly in stockholders' investment. The Statement of Consolidated Earnings for 1987, 1986 and 1985 includes foreign exchange gains (losses) of \$3,959,000, \$(1,564,000) and \$1,878,000, respectively, which resulted primarily from commercial transactions and forward exchange contracts.

(4) *Cash, Short-Term Borrowings and Compensating Balances* The Company's domestic banking system provides for the daily replenishment of major bank accounts for check clearing requirements. Accordingly, outstanding checks of \$30,850,518 and \$17,310,000 at September 30, 1987 and 1986, respectively, that had not yet been paid by the banks are reflected in cash and trade accounts payable in the Statement of Consolidated Financial Position.

A summary of short-term borrowing activity follows:

| | (Dollars in thousands) | | |
|--|------------------------|-----------|-----------|
| | 1987 | 1986 | 1985 |
| Outstanding at September 30— | | | |
| Bank borrowing..... | \$ — | \$ 12,487 | \$ — |
| Commercial paper borrowing supported by lines of credit..... | — | 20,000 | — |
| | \$ — | \$ 32,487 | \$ — |
| Average interest rate..... | — | 6.4% | — |
| Average for the year— | | | |
| Borrowing..... | \$106,569 | \$ 61,252 | \$ 36,633 |
| Interest rate..... | 6.74% | 8.4% | 9.3% |
| Maximum borrowing outstanding at any month end..... | \$224,736 | \$151,400 | \$116,908 |

The Company has a Revolving Credit Agreement which provides for borrowings of \$300 million from October 1 through May 31, and \$150 million at other times. The Agreement expires not later than June 30, 1990. A commitment fee is payable on any available, unused portion.

The Company also had domestic money market lines of credit of \$89.7 million at September 30, 1987. The Company's non-U.S. subsidiaries had additional lines of credit of approximately \$80.3 million at September 30, 1987.

(5) Inventories

All of the Company's domestic inventory is carried at the lower of last-in, first-out (LIFO) cost or market. All other inventory (23% in 1987 and 22% in 1986) is carried at the lower of first-in, first-out (FIFO) cost or market.

During 1987, the liquidation of LIFO inventory

quantities acquired at lower costs prevailing in prior years as compared with the cost of 1987 purchases reduced the September 30, 1987 accumulated LIFO adjustment and increased income before tax by \$4,051,000.

The various components of inventory were as follows:

| September 30 | (Dollars in thousands) | |
|--|------------------------|-----------|
| | 1987 | 1986 |
| Finished product..... | \$ 78,156 | \$ 66,512 |
| Raw material, work in process and service parts..... | 167,348 | 181,886 |
| Inventory at current cost which is less than market..... | 245,504 | 248,398 |
| Less—LIFO adjustment..... | 59,262 | 60,691 |
| Total inventory..... | \$186,242 | \$187,707 |

(6) Plant and Equipment and Accumulated Depreciation

The changes in plant and equipment for the years ended September 30, 1987, 1986 and 1985 were as follows:

| | (Dollars in thousands) | | | | |
|---------------------------------|------------------------------------|----------------------|------------------|----------------------------|------------------------------|
| | Balance, Beginning of Period | Additions at Cost | Retire- ments | Translation Adjustments | Balance, End of Period |
| Year Ended September 30, 1987— | | | | | |
| Leasehold improvements..... | \$ 4,513 | \$ 504 | \$ 738 | \$ 37 | \$ 4,316 |
| Land and land improvements..... | 13,767 | 2,078 | 124 | 75 | 15,796 |
| Buildings and fixtures..... | 97,937 | 21,143 | 343 | 1,042 | 119,779 |
| Machinery and equipment..... | 304,868 | 40,043 | 12,922 | 1,990 | 333,979 |
| Construction in progress..... | 11,485 | (1,546) | — | 41 | 9,980 |
| | \$432,570 | \$62,222 | \$14,127 | \$3,185 | \$483,850 |
| Year Ended September 30, 1986— | | | | | |
| Leasehold improvements..... | \$ 4,355 | \$ 114 | \$ 4 | \$ 48 | \$ 4,513 |
| Land and land improvements..... | 12,026 | 1,819 | 142 | 64 | 13,767 |
| Buildings and fixtures..... | 91,275 | 5,748 | 409 | 1,323 | 97,937 |
| Machinery and equipment..... | 276,791 | 31,675 | 6,213 | 2,615 | 304,868 |
| Construction in progress..... | 13,409 | (1,825) | 151 | 52 | 11,485 |
| | \$397,856 | \$37,531 | \$ 6,919 | \$4,102 | \$432,570 |
| Year Ended September 30, 1985— | | | | | |
| Leasehold improvements..... | \$ 4,308 | \$ 31 | \$ 19 | \$ 35 | \$ 4,355 |
| Land and land improvements..... | 11,945 | 796 | 704 | (11) | 12,026 |
| Buildings and fixtures..... | 96,649 | 4,939 | 10,552 | 239 | 91,275 |
| Machinery and equipment..... | 249,486 | 35,137 | 8,331 | 499 | 276,791 |
| Construction in progress..... | 12,916 | 500 | — | (7) | 13,409 |
| | \$375,304 | \$41,403 | \$19,606 | \$ 755 | \$397,856 |

Note (6) continued

The changes in accumulated depreciation of plant and equipment for the years ended September 30, 1987, 1986 and 1985 were as follows:

| | (Dollars in thousands) | | | | |
|---------------------------------|------------------------------------|---------------------------|------------------|----------------------------|------------------------------|
| | Balance, Beginning of Period | Charged to Earnings | Retire- ments | Translation Adjustments | Balance, End of Period |
| Year Ended September 30, 1987— | | | | | |
| Leasehold improvements..... | \$ 2,745 | \$ 238 | \$ 717 | \$ 30 | \$ 2,296 |
| Land and land improvements..... | 3,368 | 284 | — | 16 | 3,668 |
| Buildings and fixtures..... | 42,652 | 3,565 | 272 | 762 | 46,707 |
| Machinery and equipment..... | 179,303 | 21,565 | 11,773 | 1,372 | 190,467 |
| | \$228,068 | \$25,652 | \$12,762 | \$2,180 | \$243,138 |
| Year Ended September 30, 1986— | | | | | |
| Leasehold improvements..... | \$ 2,488 | \$ 220 | \$ — | \$ 37 | \$ 2,745 |
| Land and land improvements..... | 3,071 | 290 | 24 | 31 | 3,368 |
| Buildings and fixtures..... | 38,734 | 3,139 | 407 | 1,186 | 42,652 |
| Machinery and equipment..... | 163,040 | 19,716 | 5,366 | 1,913 | 179,303 |
| | \$207,333 | \$23,365 | \$ 5,797 | \$3,167 | \$228,068 |
| Year Ended September 30, 1985— | | | | | |
| Leasehold improvements..... | \$ 2,249 | \$ 229 | \$ 14 | \$ 24 | \$ 2,488 |
| Land and land improvements..... | 3,199 | 258 | 397 | 11 | 3,071 |
| Buildings and fixtures..... | 42,629 | 3,134 | 7,346 | 317 | 38,734 |
| Machinery and equipment..... | 153,348 | 17,358 | 8,112 | 446 | 163,040 |
| | \$201,425 | \$20,979 | \$15,869 | \$ 798 | \$207,333 |

Depreciation was provided at the following annual rates:

| | |
|------------------------------|-----------|
| Land improvements..... | 5% to 20% |
| Buildings and fixtures..... | 2% to 10% |
| Machinery and equipment..... | 8% to 25% |

Depreciation is provided substantially on a straight-line basis over the estimated useful lives of the respective assets. Depreciation is not provided on construction in progress until the related assets are placed into service.

Maintenance and repair costs are charged directly to

earnings as incurred. Major rebuilding costs are charged to plant and equipment accounts. Applicable asset and accumulated depreciation accounts are reduced for dispositions and the resulting gain or loss is included in net earnings.

(7) Long-Term Debt

Long-term debt at September 30, 1987 and 1986, net of current maturities and sinking fund requirements included in current liabilities, consists of:

| | (Dollars in thousands) | |
|--|------------------------|----------|
| | 1987 | 1986 |
| 9½% sinking fund debentures due in 2017 with annual payments of \$5,000,000 beginning in 1998..... | \$100,000 | \$ — |
| 9⅞% notes..... | — | 26,200 |
| 9% notes..... | — | 25,800 |
| 7¾% sinking fund debentures due in 1996 with annual sinking fund requirements of \$1,750,000..... | 9,517 | 12,039 |
| Various industrial revenue bonds..... | 18,380 | 21,380 |
| Other..... | 3,979 | 415 |
| | \$131,876 | \$85,834 |

The loan agreements covering the 9½% sinking fund debentures, the 7¾% sinking fund debentures and the industrial revenue bonds contain, among other things, requirements for the maintenance of working capital or working capital ratios and restrictions on the payment of dividends, redemption or retirement of shares of common stock and the issuance of additional funded indebtedness. Under the terms of these agreements, consolidated accumulated earnings of \$42,529,000 were available for dividends as of September 30, 1987.

Maturities and sinking fund requirements of long-term debt for each of the next five years are as follows:

| | (Dollars in thousands) |
|-----------|------------------------|
| 1988..... | \$1,600 |
| 1989..... | 1,242 |
| 1990..... | 1,816 |
| 1991..... | 1,109 |
| 1992..... | 1,933 |

At September 30, 1987 the Company held \$6,233,000 of its 7¾% sinking fund debentures which will be used to meet sinking fund requirements in 1988-1991.

Amounts repurchased have been recorded as a reduction of outstanding debt and sinking fund requirements.

In 1987 the Company prepaid \$26,200,000 of its 9½% notes due 1995, \$23,500,000 of its 9% notes due in 1998 and several industrial revenue bonds. These prepayments resulted in penalties and expenses of \$1,097,000 (after provision for income taxes of \$972,000) which is classified as an extraordinary expense.

In the second fiscal quarter, the Company arranged a \$300,000,000 term loan agreement and a \$250,000,000 revolving credit agreement. During the third fiscal quarter, the commitment under the term loan agreement was eliminated and the revolving credit agreement was amended from \$250,000,000 to \$300,000,000. During fiscal 1987, up to approximately \$96,000,000 of commercial paper was outstanding and classified as long-term debt backed by the \$300,000,000 term loan agreement. These borrowings were subsequently refunded through the issuance of common stock and long-term debt.

(8) Acquisitions

In fiscal year 1987, the Company purchased five boat manufacturers for \$120,033,000 including related expenses:

| Company | Location | Acquisition Date |
|-------------------------------|--------------------------------------|------------------|
| Four Winns, Inc. | Cadillac, Michigan and Athens, Texas | December 1986 |
| Carl A. Lowe Industries, Inc. | Lebanon, Missouri | December 1986 |
| Stratos Boat Company, Ltd. | Old Hickory, Tennessee | January 1987 |
| Sunbird Boat Co., Inc. | Columbia, South Carolina | January 1987 |
| Bramco, Inc. | Culver, Oregon | February 1987 |

These five companies are engaged in the business of designing, manufacturing and marketing recreational power boats.

These acquisitions have been accounted for as purchases and their results of operations have been consolidated with those of the Company since the dates of acquisition. The assets and liabilities have been recorded at their fair values at the dates of acquisition. The boat

company final purchase price allocation is summarized as follows:

| | (Dollars in thousands) |
|--|------------------------|
| Working capital | \$ 15,043 |
| Goodwill | 66,504 |
| Intangibles | 35,900 |
| Plant and equipment | 14,135 |
| Tooling | 1,489 |
| Long-term debt and non-current liabilities | (13,038) |
| | <u>\$120,033</u> |

The following summarizes the unaudited consolidated pro forma operating results of the Company as if the

acquisition of the five boat manufacturers had occurred at the beginning of the periods:

| | (In thousands except amounts per share) | |
|--|---|-------------|
| Twelve Months Ended September 30 | 1987 | 1986 |
| Net Sales..... | \$1,323,906 | \$1,119,754 |
| Net earnings before extraordinary items..... | \$ 47,017 | \$ 10,456 |
| Extraordinary items..... | 15,035 | 3,259 |
| Net earnings..... | \$ 62,052 | \$ 13,715 |
| Earnings per share of common stock: | | |
| Before extraordinary items..... | \$2.57 | \$.62 |
| Extraordinary items..... | .82 | .19 |
| Net earnings..... | \$3.39 | \$.81 |

Note (8) continued

Pro forma information has been prepared based on the final purchase price allocation and is for comparative purposes only. This information does not purport to be indicative of the results that actually would have been obtained if the combined operations had been conducted during the periods presented and is not intended to be a projection of future results.

The pro forma results include the effects of purchase accounting adjustments and additional interest expense as if debt incurred in connection with the acquisitions had been outstanding from the beginning of each period.

Goodwill is amortized over 40 years and intangibles are amortized over approximately 9 years.

In September 1987, the Company purchased, for \$28,866,000, certain assets of Gilson Brothers Company, Plymouth, Wisconsin, a manufacturer of rider mowers, lawn and garden tractors, tillers, snow throwers and other products. This transaction has been accounted for as a purchase and the results of operations have been consolidated with those of the Company since the date of acquisition. Pro forma operating results have not been presented because they are not material.

(9) Preferred Stock and Stockholder Rights Plan

The Board of Directors has the authority to establish certain rights, preferences and limitations of the preferred stock prior to its issuance.

On June 12, 1986, the Company adopted a Stockholder Rights Plan. Stockholders of record on June 23, 1986 received a dividend of one Right per share of Outboard Marine Corporation ("OMC") common stock held as of such date. Those persons becoming stockholders after June 23, 1986 will also receive one Right per share of OMC common stock acquired. The Rights will expire on June 23, 1996.

Each Right will entitle the holder thereof to buy 1/100 of a newly-issued share of OMC preferred stock at an exercise price of \$95. The Rights will be exercisable only if a person or group acquires beneficial ownership of 20% or more of OMC's common stock or commences a tender or exchange offer that would, if successful, result in such person or group owning beneficially 30% or more of OMC's common stock.

If any person becomes the beneficial owner of 30% or more of OMC common stock, if OMC is the surviving corporation in a merger with a 20%-or-more stockholder ("20% Holder") and OMC's common stock is

not changed or exchanged, or if a 20% Holder engages in certain self-dealing transactions with OMC, then each Right not owned by the 20% Holder or related parties will entitle its holder to purchase, at the Right's then current exercise price, shares of OMC common stock having a value of twice the Right's then current exercise price. In addition, if after any person has become a 20% Holder, OMC is involved in a merger or other business combination transaction with another person in which OMC's common stock is changed or exchanged, or if OMC sells 50% or more of its assets or earning power to another person, each Right will entitle its holder to purchase, at the Right's then current exercise price, shares of common stock of such other person having a value of twice the Right's then current exercise price.

OMC will generally be entitled to redeem the Rights at \$.05 per Right at any time until 20 days (subject to extension) following a public announcement that a 20% position has been acquired.

Under the Stockholder Rights Plan, there have been reserved for issuance 300,000 shares of the Company's preferred stock.

(10) Common Stock

Under the provisions of the 1982 Stock Option and Performance Unit Plan, 840,000 shares of common stock were reserved for options granted or to be granted to officers and executive employees at not less than 100% of the fair market value at date of grant, exercisable not later than ten years after the date of grant. Options are exercisable to the extent of 40% after one year from date of grant, an additional 30% after two years and in full after three years. The 1982 Plan terminated in January 1987 and no options were available for grant at September 30, 1987. The 1982 Plan also reserved 1,200,000 shares for the award of Performance Units.

Under the provisions of the 1987 Stock Option and Performance Unit Plan, 800,000 shares of common stock were reserved for options granted or to be granted to officers and executive employees at not less than

85% of the fair market value at date of grant. Incentive stock options are exercisable not later than ten years after the date of grant. Non-incentive stock options are exercisable not later than eleven years after the date of grant. Certain non-incentive stock options are accompanied by in-tandem limited stock appreciation rights exercisable only upon a change in control, and all non-incentive stock options are accompanied by tax supplement stock options exercisable in conjunction with the applicable non-incentive stock option. All such options are exercisable to the extent of 40% after one year from the date of grant, an additional 30% after two years, and in full after three years. Options for 581,348 shares remain available for grant at September 30, 1987. The Plan also reserved 1,200,000 shares for the award of Performance Units.

Certain prior options for 50,554 shares outstanding at September 30, 1987 include the grant of conditional stock appreciation rights at an exercise price of \$4.60

per share, which are exercisable only upon a change in control of the Company. A summary of pertinent option data is as follows.

| | Number of Option Shares | Option Exercise Price Per Share |
|--|-------------------------------|---------------------------------------|
| Options outstanding and unexercised at September 30, 1985..... | 437,294 | \$4.60-\$29.75 |
| Option activity for the fiscal year ended September 30, 1986 | | |
| Options granted..... | 278,475 | \$31.00 |
| Options exercised..... | (111,046) | \$4.60-\$25.94 |
| Options cancelled..... | (6,270) | \$22.19-\$25.94 |
| Options outstanding and unexercised at September 30, 1986..... | 598,453 | \$4.60-\$31.00 |
| Option activity for the fiscal year ended September 30, 1987 | | |
| Options granted..... | 221,502 | \$31.25-\$34.00 |
| Options exercised..... | (75,675) | \$4.60-\$31.00 |
| Options cancelled..... | (25,720) | \$10.75-\$31.25 |
| Options outstanding and unexercised at September 30, 1987..... | 718,560 | \$4.60-\$34.00 |

In October 1987, the Board of Directors of the Company approved the repurchase of up to \$50,000,000

of its common stock in the open market or in privately negotiated transactions.

(11) Research and Development, Product Tooling and Warranty

Research and development costs, including quality control, are charged to expense as incurred. Such costs were \$40,255,000, \$40,932,000 and \$39,709,000 in 1987, 1986 and 1985, respectively.

Product tooling costs are amortized over a period not exceeding three years, beginning the first year the related product is sold. Amortization for 1987, 1986

and 1985 was \$23,243,000, \$23,758,000 and \$17,143,000, respectively.

Estimated product warranty is accrued and charged against earnings in the year the related products are sold. Warranty accruals are reflected in accrued liabilities—other in the Statement of Consolidated Financial Position.

(12) Pension and Incentive Compensation Programs

The Company and its subsidiaries have pension plans covering a majority of employees. Worldwide pension calculations resulted in income of \$4,698,000 in 1987 and expense of \$1,083,000 and \$2,861,000 in 1986 and 1985, respectively.

The Company elected to adopt Statement of Financial Accounting Standards No. 87 (SFAS No. 87), "Employers' Accounting for Pensions," with respect to the United States and Canadian pension plans, effective October 1, 1986. The net effect of the application of this standard decreased pension expense \$4,165,000

(\$12 per share after tax) for the year ending September 30, 1987. The Company, however, continues to use prior actuarial cost methods to determine contributions. In the United States, the Company contributes amounts sufficient to satisfy funding requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The following United States and Canadian amounts are included in the Company's 1987 pension income (expense):

(Dollars in thousands)

| | |
|---|------------|
| Benefits earned during the period..... | \$ (5,713) |
| Interest cost on projected benefit obligation | (18,766) |
| Actual return on assets | 51,430 |
| Net amortization and deferral | (21,367) |
| Net periodic pension income (expense) | \$ 5,584 |

Actuarial assumptions used in 1987 to determine net periodic pension income (expense) were:

| | October 1, 1986 | September 30, 1987 |
|---|-----------------|--------------------|
| Discount rates..... | 8% | 10% |
| Rates of increase in compensation levels (salaried employee plans)..... | 5% | 5% |
| Expected long-term rate of return on assets | 9½% | 9½% |

The funded status and pension liability at September 30, 1987 are as follows:

| | (Dollars in thousands) | |
|--|--|--|
| | Assets Exceed Accumulated Benefits | Accumulated Benefits Exceed Assets |
| Actuarial present value of benefit obligations: | | |
| Vested | \$167,500 | \$ 3,423 |
| Nonvested | 19,957 | 412 |
| Accumulated benefit obligation | 187,457 | 3,835 |
| Effect of projected future salary increases | 16,760 | 430 |
| Projected benefit obligation | 204,217 | 4,265 |
| Plan assets at fair market value | 322,786 | — |
| Plan assets (more than) less than projected benefit obligation | (118,569) | 4,265 |
| Unrecognized net gain | 65,420 | 979 |
| Remaining unrecognized net asset (obligation) arising from the initial application of SFAS No. 87 | 54,014 | (2,494) |
| Adjustment required to recognize minimum liability | — | 1,800 |
| Pension liability recognized in the statement of financial position | \$ 865 | \$ 4,550 |

In 1986, the actuarial present value of accumulated plan benefits, using assumed rates of return from 6½% to 12%, were \$203,125,000 (\$177,886,000 vested) and net assets available for benefits were \$252,938,000.

In fiscal 1987, the Company's Board of Directors amended one of the Company's major defined benefit plans to provide that upon a change in control of the Company and upon certain other actions by the acquiror, all participants of this plan would become vested in any excess of plan assets over total accumulated benefit obligations.

In addition to providing pension benefits, the Company and some of its subsidiaries provide certain health care and life insurance benefits for retired employees. Covered employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The cost of retiree health care and life insurance benefits is recognized as expense when claims are paid. For 1987 and 1986, respectively, those costs totaled \$3,923,000 and \$3,387,000.

Under the Company's Management Incentive Compensation Plan, the Board of Directors has the authority to determine the aggregate management incentive compensation for officers and key employees of the Company. This amount cannot exceed 7½% of

consolidated net earnings (as defined in the Plan). The amount of incentive compensation is further limited by conditions relating to the amount of capital employed by the Company and the amount of dividends paid. The Plan is administered by an Incentive Plan Committee of the Board of Directors who are not participants in the Plan. In 1987 and 1985, \$3,496,000 and \$1,294,000, respectively, were charged to earnings for incentive compensation. In 1986, no incentive compensation was provided.

The 1982 and 1987 Stock Option and Performance Unit Plans authorize the awarding of performance units, each with a value equal to the value of a share of Common Stock at the time of grant. Units will be earned and paid in cash or shares, or both, based upon the judgement of the Stock Option Committee as to the achievement of various goals over four-year award cycles. In 1987, 1986 and 1985, respectively, \$978,000, \$1,308,000 and \$(1,595,000) were charged (credited) to earnings for the estimated cost of performance units earned under the 1982 and 1987 Stock Option and Performance Unit Plans.

Other employees of the Company participate in various profit sharing and bonus plans under which \$1,786,000 was charged to earnings in 1987.

(13) Supplementary
Earnings Account
Information

The Statement of Consolidated Earnings includes the following items of expense:

| | (Dollars in thousands) | | |
|---|------------------------|----------|----------|
| | 1987 | 1986 | 1985 |
| Maintenance and repairs | \$27,308 | \$24,725 | \$25,678 |
| Taxes, other than income taxes— | | | |
| Payroll | 28,116 | 22,408 | 22,081 |
| Real estate and personal property | 3,964 | 2,901 | 2,632 |
| Other | 1,094 | 1,097 | 709 |
| Advertising | 32,141 | 25,995 | 22,133 |
| Rental expense | 8,966 | 8,856 | 8,833 |

(14) Other Income
(Expense), Net

Other non-operating income (expense) in the Statement of Consolidated Earnings consists of the following items:

| | (Dollars in thousands) | | |
|---|------------------------|-----------------|-----------------|
| | 1987 | 1986 | 1985 |
| Income (Expense)— | | | |
| Minority interest | \$ — | \$ — | \$ 617 |
| Interest earned | 8,172 | 3,351 | 3,306 |
| Amortization of goodwill and intangibles | (4,727) | — | — |
| Foreign exchange gains (losses) | 3,959 | (1,564) | 1,878 |
| Gain (Loss) on disposition of plant and equipment | 1,385 | 2,893 | (751) |
| Miscellaneous income, net | 2,004 | 556 | 1,078 |
| | \$10,793 | \$ 5,236 | \$ 6,128 |

(15) Income Taxes

The provision for income taxes consists of the following components:

| | (Dollars in thousands) | | |
|---|------------------------|--------------|-----------------|
| | 1987 | 1986 | 1985 |
| Current provision for income taxes— | | | |
| Federal | \$ 48,809 | \$ (16,627) | \$ 1,822 |
| State | 5,202 | — | 758 |
| Non-U.S. | 4,679 | 5,514 | 1,641 |
| Total current | 58,690 | (11,113) | 4,221 |
| Deferred provision for income taxes | (12,186) | 11,145 | 19,954 |
| Total provision | \$ 46,504 | \$ 32 | \$24,175 |

The provision for deferred income taxes reflects the following timing differences:

| | (Dollars in thousands) | | |
|---|------------------------|------------------|-----------------|
| | 1987 | 1986 | 1985 |
| Environmental contingency accrual | \$ — | \$ (7,350) | \$ — |
| Tax benefit leases | (2,211) | 9,523 | 11,233 |
| Voluntary Employee Benefit Association (VEBA) | 460 | (2,274) | 68 |
| Deferred income on installment sales | (12,603) | 10,620 | 4,847 |
| Difference between book/tax depreciation and tooling amortization | 4,776 | 4,811 | 5,932 |
| Non-deductible reserves | (5,662) | (2,346) | (1,398) |
| Other | 3,054 | (1,839) | (728) |
| | \$(12,186) | \$ 11,145 | \$19,954 |

The following summarizes the major differences between the actual provision for income taxes and the

provision based on the statutory United States Federal income tax rate:

| | (Dollars in thousands) | | | % to Pretax Earnings | | |
|--|------------------------|--------------|-----------------|----------------------|-----------|-------------|
| | Amount | | | | | |
| | 1987 | 1986 | 1985 | 1987 | 1986 | 1985 |
| At statutory rate | \$40,103 | \$5,112 | \$24,634 | 43.0 | 46.0 | 46.0 |
| State income taxes, net of Federal tax deduction | 2,711 | (192) | 1,258 | 2.9 | (1.7) | 2.3 |
| Investment and R&D tax credits | 115 | (2,935) | (4,553) | .1 | (26.4) | (8.5) |
| Tax effect of non-U.S. subsidiary earnings taxed at other than the U.S. rate (after translation to U.S. dollars) | (1,395) | (1,436) | (317) | (1.5) | (12.9) | (.6) |
| Tax benefit not provided on the operating losses of certain subsidiaries | 923 | 381 | 5,945 | 1.0 | 3.4 | 11.1 |
| Tax benefit of utilizing net operating loss carryforwards of certain subsidiaries | — | — | (340) | — | — | (.6) |
| Tax effect of audits for 1972 through 1984 | 3,305 | — | — | 3.6 | — | — |
| Other | 742 | (898) | (2,452) | .8 | (8.1) | (4.6) |
| Actual provision | \$46,504 | \$ 32 | \$24,175 | 49.9 | .3 | 45.1 |

Investment and research and development tax credits are recorded as reductions of income taxes in the year they arise. In accordance with generally accepted accounting principles, the Company used existing tax law at September 30, 1986 to calculate the credit in 1986. Because of the change in applicable tax law contained

in the Tax Reform Act of 1986, \$965,000 was charged to tax expense in the first quarter of 1987 and is netted with the 1987 credits.

During 1987, \$6,410,000 of non-U.S. net operating loss carryforwards with tax benefits of \$3,077,000 were utilized. As of September 30, 1987, certain

Note (15) continued

non-U.S. subsidiaries of the Company had net operating loss carryforwards of \$14,959,000, of which \$5,475,000 expire by 1991.

Domestic and non-U.S. earnings before provision for income taxes for the years ended September 30, 1987, 1986 and 1985 consist of the following:

| | (Dollars in thousands) | | |
|--|------------------------|------------|----------|
| | 1987 | 1986 | 1985 |
| Earnings (Loss) before provision for income taxes— | | | |
| United States | \$72,684 | \$ (2,779) | \$56,177 |
| Non-U.S. | 20,579 | 13,891 | (2,624) |
| | \$93,263 | \$11,112 | \$53,553 |

Due to the integrated nature of the Company's operations, any attempt to interpret the above pretax earnings as those resulting from stand-alone types of operations could be misleading.

In prior years, the Company invested \$42,000,000 in certain tax benefit leases. During the current fiscal year, the Company sold its wholly owned subsidiary which held the leases. This transaction resulted in extraordinary income of \$13,055,000.

No U.S. deferred taxes have been provided on the undistributed non-U.S. subsidiary earnings which are considered to be permanently invested. While the Company has no plans to repatriate permanently invested non-U.S. subsidiary earnings amounting to \$71,000,000, the potential U.S. income tax liability should such repa-

triation occur would not be material.

The Company has settled all issues with the Internal Revenue Service for the fiscal years 1972 through 1982 and has paid the anticipated amount of tax and interest due as calculated by the Company. The Company is waiting for the Internal Revenue Service to issue the final assessment of tax regarding the 1972 through 1982 fiscal years. The federal income tax returns of the Company and its subsidiaries for the years 1983 and 1984 have been audited by the Internal Revenue Service. Adjustments have been proposed and the Company plans to contest a major portion of the issues raised. Management believes that it has made adequate provision for the final settlement of its income tax liability for these tax years.

(16) Business Segments Information by industry segment follows:

| | (Dollars in thousands) | | |
|---------------------------------------|------------------------|-----------|-----------|
| | 1987 | 1986 | 1985 |
| Net sales: | | | |
| Marine products | \$1,088,550 | \$796,846 | \$706,307 |
| Power mowers | 116,192 | 109,336 | 110,558 |
| Vehicles and turf care equipment..... | 77,525 | 58,628 | 56,223 |
| Other | 6,885 | 7,018 | 7,117 |
| Total | \$1,289,152 | \$971,828 | \$880,205 |
| Earnings (Loss) from operations: | | | |
| Marine products | \$ 112,690 | \$ 35,860 | \$ 59,702 |
| Power mowers | 5,227 | 5,802 | 5,785 |
| Vehicles and turf care equipment..... | 10,801 | 8,890 | 11,151 |
| Other | (1,401) | (150) | (1,223) |
| Corporate expense | (18,886) | (15,117) | (14,125) |
| Total | \$ 108,431 | \$ 35,285 | \$ 61,290 |
| Depreciation: | | | |
| Marine products | \$ 22,372 | \$ 19,984 | \$ 17,649 |
| Power mowers | 1,486 | 1,545 | 1,531 |
| Vehicles and turf care equipment..... | 1,185 | 1,214 | 1,022 |
| Other | 609 | 622 | 777 |
| Total | \$ 25,652 | \$ 23,365 | \$ 20,979 |
| Additions to plant and equipment: | | | |
| Marine products | \$ 46,174 | \$ 29,135 | \$ 35,252 |
| Power mowers | 14,063 | 2,248 | 3,054 |
| Vehicles and turf care equipment..... | 1,618 | 4,946 | 2,039 |
| Other | 367 | 1,202 | 1,058 |
| Total | \$ 62,222 | \$ 37,531 | \$ 41,403 |
| Total assets at September 30: | | | |
| Marine products | \$ 767,225 | \$637,058 | \$569,790 |
| Power mowers | 100,827 | 77,778 | 75,183 |
| Vehicles and turf care equipment..... | 56,242 | 44,012 | 31,830 |
| Other | 3,972 | 6,181 | 3,838 |
| Corporate assets..... | 38,173 | 9,980 | 40,045 |
| Total | \$ 966,439 | \$775,009 | \$720,686 |

Information by geographic area follows:

| | (Dollars in thousands) | | |
|--------------------------------------|------------------------|-----------|-----------|
| | 1987 | 1986 | 1985 |
| Net sales: | | | |
| United States | \$1,007,583 | \$726,555 | \$669,445 |
| Europe | 121,076 | 107,780 | 79,983 |
| Other | 160,493 | 137,493 | 130,777 |
| Total | \$1,289,152 | \$971,828 | \$880,205 |
| Sales between geographic areas—from: | | | |
| United States | \$ 147,684 | \$154,158 | \$133,449 |
| Europe | 30,590 | 23,853 | 16,437 |
| Other | 48,409 | 59,614 | 32,594 |
| Total | \$ 226,683 | \$237,625 | \$182,480 |
| Total revenue: | | | |
| United States | \$1,155,267 | \$880,713 | \$802,894 |
| Europe | 151,666 | 131,633 | 96,420 |
| Other | 208,902 | 197,107 | 163,371 |
| Eliminations | (226,683) | (237,625) | (182,480) |
| Total | \$1,289,152 | \$971,828 | \$880,205 |
| Earnings (Loss) from operations: | | | |
| United States | \$ 108,308 | \$ 39,574 | \$ 75,043 |
| Europe | 7,242 | (378) | (5,037) |
| Other | 11,767 | 11,206 | 5,409 |
| Corporate expenses | (18,886) | (15,117) | (14,125) |
| Total | \$ 108,431 | \$ 35,285 | \$ 61,290 |
| Total assets at September 30: | | | |
| United States | \$ 735,300 | \$586,456 | \$524,696 |
| Europe | 74,262 | 69,100 | 54,160 |
| Other | 118,704 | 109,473 | 101,785 |
| Corporate assets | 38,173 | 9,980 | 40,045 |
| Total | \$ 966,439 | \$775,009 | \$720,686 |

There were no sales between industry segments. Sales between geographic areas reflect the basis used by the Company to price intercompany sales. Corporate assets consist primarily of cash, securities and property.

Due to the integrated nature of the Company's operations, the foregoing estimates of earnings and assets by industry segment involve substantial allocations of cost and assets. Any attempt to interpret the above

industry segment and geographic area data as resulting from unique or stand-alone types of operations could be misleading.

Additional descriptive and analytical information about the business is presented in Part I, Item 1 and Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended September 30, 1987, which information is unaudited.

(17) Quarterly
Information
(Unaudited)

A summary of pertinent quarterly data for the 1987 and 1986 fiscal years follows:

| Quarter Ended | (Dollars in thousands except amounts per share) | | | |
|--|---|-----------|-----------|--------------|
| | December 31 | March 31 | June 30 | September 30 |
| Fiscal 1987— | | | | |
| Net sales | \$168,742 | \$322,640 | \$393,483 | \$404,287 |
| Gross earnings | \$ 18,752 | \$ 67,429 | \$102,863 | \$111,730 |
| Net earnings (loss) before extraordinary items | \$ (6,846) | \$ 8,954 | \$ 22,249 | \$ 22,402 |
| Extraordinary income, net | 1,007 | 1,240 | 1,248 | 11,540 |
| Net earnings (loss) | \$ (5,839) | \$ 10,194 | \$ 23,497 | \$ 33,942 |
| Net earnings (loss) per share: | | | | |
| Before extraordinary items | \$(.40) | \$.52 | \$1.15 | \$1.15 |
| Extraordinary income, net | .06 | .07 | .06 | .60 |
| Net | \$(.34) | \$.59 | \$1.21 | \$1.75 |
| Fiscal 1986— | | | | |
| Net sales | \$140,472 | \$245,543 | \$298,808 | \$287,005 |
| Gross earnings | \$ 14,415 | \$ 51,390 | \$ 74,266 | \$ 52,817 |
| Net earnings (loss) before extraordinary items | \$ (8,769) | \$ 6,038 | \$ 16,569 | \$ (2,758) |
| Extraordinary income, net | — | — | — | 3,259 |
| Net earnings (loss) | \$ (8,769) | \$ 6,038 | \$ 16,569 | \$ 501 |
| Net earnings (loss) per share: | | | | |
| Before extraordinary items | \$(.52) | \$.36 | \$.98 | \$(.16) |
| Extraordinary income | — | — | — | .19 |
| Net | \$(.52) | \$.36 | \$.98 | \$.03 |

The fourth quarter of 1987 includes an extraordinary gain on the sale of tax benefit leases of \$13,055,000 and a net adjustment reducing the gain on utilization of non-U.S. tax loss carryforwards by \$1,515,000. The fourth quarter of 1987 also includes adjustments to accruals and reserves resulting in a reduction of fourth quarter net earnings of \$4,000,000.

Earnings per share for the third quarter of 1987 have been restated from \$1.30 to \$1.21 to reflect the average

shares outstanding for the third quarter rather than the average year-to-date shares outstanding.

Due to the seasonal nature of the Company's business, it is not appropriate to compare the results of operations of different fiscal quarters.

The price range at which the Company's common stock traded on the New York Stock Exchange and the dividends paid per share during the last eight fiscal quarters are as follows:

| Quarter Ended | Market Price | | Dividend Paid |
|--------------------------|--------------|---------|---------------|
| | High | Low | |
| September 30, 1987 | \$38.00 | \$32.75 | \$.16 |
| June 30, 1987 | 35.50 | 29.75 | .16 |
| March 31, 1987 | 35.75 | 26.37 | .16 |
| December 31, 1986 | 33.12 | 23.87 | .16 |
| September 30, 1986 | 33.50 | 24.25 | .16 |
| June 30, 1986 | 38.50 | 29.25 | .16 |
| March 31, 1986 | 32.25 | 25.37 | .16 |
| December 31, 1985 | 28.12 | 21.37 | .16 |

At November 2, 1987 the closing price per share was \$19.87.

*(18) Commitments and
Contingent Liabilities*

At September 30, 1987, outstanding commitments for plant and equipment additions were approximately \$12,000,000.

Minimum commitments under operating leases having initial or remaining terms of greater than one year are \$5,511,000, \$3,496,000, \$2,486,000, \$1,889,000, \$871,000 and \$765,000 for the years ending September 30, 1988, 1989, 1990, 1991, 1992 and after 1992, respectively.

The Company is engaged in a substantial number of legal proceedings arising in the ordinary course of business. While the results of these proceedings cannot be predicted with any certainty, based upon the information presently available, management is of the opinion that the final outcome of all such proceedings should not have a material effect upon the results of operations of the Company.

The Company is also engaged in the following nonroutine legal proceedings:

(a) As previously reported, in 1978 the Company, the Monsanto Company and the United States and Illinois Environmental Protection Agencies ("Agencies") initiated various litigation among each other in the United States District Court for the Northern District of Illinois, Eastern Division. The suits alleged presence of polychlorinated biphenyls in the water, biota and sediment of certain waterways adjacent to the Company's Waukegan, Illinois lakefront facility, in groundwater underlying and adjacent to said facility and on certain land of said facility. The suits by the Agencies sought to require Monsanto and the Company, jointly and severally, to cease any further discharge, to remove and dispose of all allegedly contaminated sediments and soils and to pay certain penalties.

On May 22, 1984, the Agencies jointly requested the Court to dismiss their suits. Their stated intention was to proceed on a "cleanup" of the Waukegan site to be funded under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("Superfund") and thereafter to file a cost-recovery action against the Company. Subsequently, the Agencies indicated that they would implement a "fund-balanced" \$27 million remedy. The Agencies have indicated that the remedy remains under design.

On February 6, 1985, the Court, over the Company's objection, permitted the Agencies to withdraw their suits. A condition of the dismissal prohibits the Agencies from refiling their suits and limits any further suit against the Company to a cost-recovery action under Superfund. The Court of Appeals has affirmed the decision of the District Court. The Company's Petition for Writ of Certiorari to the U.S. Supreme Court to review the decision was denied.

The Company presented to the Agencies on December 1, 1986, a proposal to resolve the matter. The cost of the remedy which forms the basis of the proposal is estimated to be \$15 million and was charged against 1986 earnings.

(b) On May 21, 1987, in the United States District Court for the Northern District of Illinois, Eastern Division, Natural Resources Defense Council, Inc., a not-for-profit membership corporation ("Plaintiff"), filed suit against the Company alleging that the Company violated certain terms and provisions of its National Pollutant Discharge Elimination System permit. Plaintiff requests \$1,000,000 in monetary damages and an injunction against the Company to prevent future violations. On July 15, 1987, the Company filed its Answer to the Complaint. The Answer denies the allegations made in the Complaint and asserts certain affirmative defenses.

(c) On October 8, 1987, in the Circuit Court of the Nineteenth Judicial Circuit, Lake County, Illinois, the Company was named as a third party defendant (the "Third Party Complaint") along with eight other corporate defendants ("Third Party Defendants") in a suit filed by People of the State of Illinois ("Plaintiff") against Henry G. Tewes, City of Waukegan and Waukegan Park District ("Defendants"), seeking contribution from the Third Party Defendants for alleged violations by the Defendants of The Environmental Protection Act (the "Act"). Contribution from the Third Party Defendants would be sought only if Defendants are finally adjudged to have violated the Act. Defendants have filed their Answer, denying all allegations.

(d) On September 14, 1987, the Illinois Environmental Protection Agency ("Agency") issued the Company a National Pollutant Discharge Elimination System Permit No. IL0002267 ("NPDES Permit") effective October 14, 1987. On October 14, 1987, the Company filed a permit appeal before the Pollution Control Board of the State of Illinois alleging that the limitations in the NPDES Permit are not necessary to ensure compliance with the Clean Water Act and are not in compliance with applicable law. Concurrently, on October 14, 1987, the Company filed a request for an evidentiary hearing with the United States Environmental Protection Agency alleging that the terms and conditions in the NPDES Permit are arbitrary and capricious and not in compliance with applicable law.

While the results of the proceedings and threatened proceedings discussed above cannot be predicted with any certainty, based upon the information presently available, management is of the opinion that the final outcome should not have a material effect on the Company's financial position.

Information About the Company

Pages 40 through 43 contain, among other things, a general description of the Company, selected financial data for the last five years, along with management's discussion and analysis of financial condition and results of operations, and various nonfinancial information

pursuant to the requirements of Annual Report on Form 10-K of the Securities and Exchange Commission. The opinion of independent public accountants does not cover the material in this section.

Part I

Item 1. Business

Outboard Marine Corporation (OMC) or the Company, which was incorporated in 1936, is engaged principally in the manufacture of powered products for leisure time purposes. Its major products, by industry segment, are as follows:

Marine products—

- Evinrude* outboard motors
- Johnson* outboard motors
- OMC *Cobra* stern drive (inboard-outboard) engines
- OMC *Sea Drive* engines
- Four Winns* Boats*
- Lowe* Boats*
- Seaswirl* Boats*
- Stratos* Boats*
- Sunbird* Boats*

Power lawn products—

- Lawn-Boy* and *Sensation* rotary lawn mowers*
- Lawn-Boy* lawn and garden tractors*
- Lawn-Boy* riding mowers*

Other—

- Cushman* light industrial vehicles
- Brouwer* turf care equipment
- Lawn-Boy*, *Ryan* and *Cushman* turf care equipment
- *Information concerning fiscal year 1987 acquisitions is presented in Note 8 to Consolidated Financial Statements which is incorporated herein by reference.

Industry segment and geographic area information for the three years ended September 30, 1987 are presented in Note 16 to Consolidated Financial Statements which is incorporated herein by reference.

All of OMC's products are sold in the United States and Canada, and most of its principal products are sold throughout the world. Outboard motors are distributed in the United States and Canada through separate *Evinrude* and *Johnson* dealer organizations, of which the majority operate under direct-from-factory dealerships. OMC *Cobra* stern drive and OMC *Sea Drive* engines are sold to boat builders. Boats are marketed through direct-from-factory dealer organizations. Power lawn products are generally marketed through wholesale distributors. *Cushman* vehicles and *Brouwer* and *Ryan* turf care equipment are sold primarily to direct-from-factory dealers. Parts and accessories are generally marketed through wholesale distributors, including

seven Company-owned marine distributors who service California and all states east of the Rocky Mountains. Distribution outside the United States and Canada is handled by six subsidiaries, which sell primarily to wholesale distributors throughout the world. Of these wholesale distributors, the Company owns eight which market the Company's products in European countries.

All of the fields in which OMC is engaged are highly competitive. OMC believes it is the world's largest producer of outboard motors and one of the largest producers of stern drive units and light industrial vehicles. It is estimated that there are no more than ten significant manufacturers for each of these products.

OMC's principal competition in the United States outboard industry is from Brunswick Corporation (*Mercury*, *Mariner* and *Force*) and *Yamaha Motor Co., Ltd.* These motors together with several other Japanese engines are also the principal competing outboards in the international market. OMC's principal competition in the stern drive industry is from Brunswick Corporation (*MerCruiser*) and *Ab Volvo Penta*. There are many manufacturers of boats which compete with OMC, the largest of which are Brunswick Corporation (*Bayliner* and *Sea Ray*) and *Genmar Industries, Inc.* (*Glastron*, *Larson*, *Lund* and *Wellcraft*).

In the lawn mower industry, OMC competes principally in the premium segment. The Company believes that its sales of lawn mowers are less than 10% of worldwide sales. There are a significant number of manufacturers in this industry.

Due to the seasonal nature of OMC's products, accounts receivable and accompanying short-term borrowing to satisfy working capital requirements are usually at their highest levels during the second and third fiscal quarters and decline thereafter as the various products enter their respective peak selling seasons. To reduce the impact of seasonality, OMC offers various types of extended credit terms or financed floor planning to qualified customers who buy the Company's outboard motors, stern drives, boats and lawn mowers. Working capital requirements during the off-season are in part financed by short-term borrowing. See Note 4 to the Consolidated Financial Statements incorporated herein by reference.

OMC considers its patent portfolio to be of considerable value even though no single patent or license is deemed to be material. In OMC's opinion, its *Brouwer*, *Cushman*, *Evinrude*, *Four Winns*, *Johnson*, *Lawn-Boy*, *Lowe*, *OMC*, *OMC Cobra*, *OMC Sea Drive*, *Ryan*, *Sea-Horse*, *Seaswirl*, *Stratos*, and *Sunbird* trademarks are of considerable value and are important to the conduct of its business.

In the fiscal years ended September 30, 1987, 1986, and 1985, OMC spent \$40,255,000, \$40,932,000 and \$39,709,000, respectively, on research and development activities relating to the development of new

products, improvement of existing products and quality control. All of this work was OMC sponsored.

The Company estimates that it will spend approximately \$1,800,000 and \$650,000, respectively, during the 1988 and 1989 fiscal years for environmental control facilities. Certain litigation involving the Company and the United States and Illinois Environmental Protection Agencies and others is described in Note 18 to Consolidated Financial Statements, which is incorporated herein by reference.

As of September 30, 1987, approximately 11,500 people were employed by OMC and its subsidiaries.

Part II

Item 2. Properties

Plants located in Waukegan, Illinois; Manawa and Milwaukee, Wisconsin; and Burnsville, Spruce Pine and Andrews, North Carolina assemble and/or manufacture parts for the Company's products, each plant specializing in a certain manufacturing process. Outboard, stern drive and *OMC Sea Drive* motors are assembled in Calhoun, Georgia; Rutherfordton, North Carolina; and Lexington, Tennessee. Lawn and garden equipment is produced in Sardis and Oxford, Mississippi; and Plymouth, Wisconsin. Vehicles and turf care equipment are produced in Lincoln, Nebraska. The Beloit, Wisconsin, facility is engaged in the worldwide distribution of service parts and accessories. Boats are manufactured in Cadillac, Michigan; Athens, Texas; Lebanon, Missouri; Old Hickory, Tennessee; Columbia, South Carolina; and Culver, Oregon.

The Company's plants in Peterborough, Ontario, Canada; Juarez, Chihuahua, Mexico; Brugge, Belgium; Bankstown, New South Wales, Australia and Hong Kong all assemble outboard motors and/or engage in fabrication. Brouwer Turf Equipment manufactures sod

harvesting equipment, reel mowers for large tracts of grass and other related turf maintenance equipment in Keswick, Ontario, Canada.

These facilities are all Company-owned except for the Hong Kong plant which is located on property leased until 1997 from the Hong Kong government; the Sardis and Oxford, Mississippi plants on which the Company holds capital-type leases, and the Old Hickory, Tennessee plant which is leased. OMC believes that all its facilities are in sound, modern, operating condition and are suitable and adequate for their purposes.

Item 3. Legal Proceedings

A description of certain legal proceedings is included in Note 18 to Consolidated Financial Statements incorporated herein by reference.

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of the 1987 fiscal year, there were no matters submitted to a vote of security holders.

Executive Officers of the Registrant

| Name | Age | Position | Number of Years in Present Office* |
|---------------------|-----|---------------------------------------|------------------------------------|
| Charles D. Strang | 66 | Director | 17 |
| | | Chairman of the Board | 5 |
| | | Chief Executive Officer | 7 |
| James C. Chapman | 56 | Director | 2 |
| | | President and Chief Operating Officer | 2 |
| Clarence P. Bangert | 64 | Vice President | less than 1 |
| Thomas J. Beeler | 54 | Vice President and General Counsel | 9 |
| Wayne E. Jones | 59 | Vice President | 1 |
| David F. Myers | 51 | Vice President | 4 |
| Michael M. Potter | 63 | Vice President | 7 |
| Robert D. Randolph | 52 | Vice President | 1 |
| Edgar Rose | 61 | Vice President | 4 |
| F. James Short | 60 | Vice President | 1 |
| Jerome M. Stumbras | 54 | Vice President | 1 |
| Samuel J. Winett | 53 | Vice President and Controller | 1 |
| John A. Winn | 40 | Vice President | less than 1 |
| Michael S. Duffey | 33 | Treasurer | less than 1 |
| Dennis E. McArdle | 41 | Secretary | 1 |

**Except as noted below, all officers are elected or appointed for terms which expire on the date of the meeting of the Board of Directors following the Annual Meeting of Stockholders or until their successors are elected and qualify.*

A brief account of the experience of the above listed officers who have served the Company as an officer less than five years is as follows:

Edgar Rose, who was elected Vice President in 1983; Clarence P. Bangert, who was elected Vice President in 1987; and Dennis E. McArdle, who was elected Secretary in 1986, had previously been employed by OMC in various executive capacities for at least five years prior thereto.

David F. Myers, who was elected Vice President in 1983, was for at least two previous years employed in various executive capacities at Carlson Companies, Inc.

Wayne E. Jones, who was elected Vice President in 1986, had been previously Controller-Financial Planning since 1978. Samuel J. Winett, who was elected Vice President in 1986, had been previously Controller-Operations since 1978.

Robert D. Randolph, who was elected Vice President in 1986, had been employed by OMC in various capacities since 1984, and for at least three years previous to

that had been employed in various executive capacities by Rockwell International Corporation.

F. James Short, who was elected Vice President in 1986, had been employed by OMC in various capacities since 1983, and for at least two years previous to that had been Vice President of Volkswagen of America, Inc.

Jerome M. Stumbras, who was elected Vice President in 1986, had been Vice President of Roper Corporation since 1983, and for at least two years previous to that had been Vice President of Gilson Brothers Company.

John A. Winn, who was elected Vice President in 1987, joined OMC upon OMC's acquisition of Four Winns, Inc., in December 1986. For at least five years previous to that he had been President and Executive Vice President of Four Winns, Inc.

Michael S. Duffey, who was elected Treasurer in 1987, had been employed as Assistant Treasurer since March 1986 and for at least five years previous to that had been employed in various executive capacities with Bank of America.

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

There were 5,640 record holders of common stock of OMC at September 30, 1987.

The other material required by this item is included in Notes 7 and 17 to Consolidated Financial Statements

incorporated herein by reference.

Item 6. Selected Financial Data

The following summary presents the results of consolidated operations for the five years ended September 30, 1987.

| Year Ended September 30 | 1987 | (In thousands except amounts per share) | | | |
|--|--------------|---|------------|-------------|-------------|
| | | 1986 | 1985 | 1984 | 1983 |
| Net sales | \$ 1,289,152 | \$ 971,828 | \$ 880,205 | \$ 911,195* | \$ 779,896* |
| Net earnings before extraordinary items | \$ 46,759 | \$ 11,080 | \$ 29,378 | \$ 52,736 | \$ 39,266 |
| Extraordinary items | \$ 15,035 | \$ 3,259 | \$ — | \$ — | \$ — |
| Net earnings | \$ 61,794 | \$ 14,339 | \$ 29,378 | \$ 52,736 | \$ 39,266 |
| Average number of shares of common stock outstanding | 18,303 | 16,965 | 16,888 | 17,459 | 17,404 |
| Per average share of common stock— | | | | | |
| Net earnings before extraordinary items | \$ 2.56 | \$.66 | \$ 1.74 | \$ 3.02 | \$ 2.26 |
| Extraordinary items | .82 | .19 | — | — | — |
| Net earnings | \$ 3.38 | \$.85 | \$ 1.74 | \$ 3.02 | \$ 2.26 |
| Cash dividends | \$.64 | \$.64 | \$.64 | \$.58 | \$.46¾ |
| Total assets | \$ 966,439 | \$ 775,009 | \$ 720,686 | \$ 671,634 | \$ 649,107 |
| Long-term debt | \$ 131,876 | \$ 85,834 | \$ 86,277 | \$ 90,915 | \$ 99,112 |

*Certain sales and advertising expenses have been reclassified as reductions of net sales.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The material required by Item 7 is included on pages 18-19 of this Annual Report to Stockholders and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The material required by Item 8 is included in the Consolidated Financial Statements attached hereto on pages 23-39 and is incorporated herein by reference.

Item 9. Disagreements on Accounting and Financial Disclosure

No disclosure is required pursuant to this item.

Part III**Item 10. Directors and Executive Officers**

Certain of the material required by Item 10 will be included under the heading "Nominees and Directors" in the Company's Notice of Annual Meeting and Proxy Statement for its Annual Meeting of Stockholders to be held on January 21, 1988, and is incorporated herein by reference.

For information with respect to the executive officers, reference is made to the information under the heading "Executive Officers of the Registrant" of this Form 10-K.

Item 11. Executive Compensation

The material required by Item 11 will be included under the heading "Compensation of Executive Officers" and under the heading "Employees' Stock Ownership and Tax Deferred Savings Plan" in the Company's Notice of Annual Meeting and Proxy Statement for its Annual Meeting of Stockholders to be held on January 21, 1988, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The material required by Item 12 will be included under the heading "Investor Table" and under the heading "Director and Officer Table" in the Company's Notice of Annual Meeting and Proxy Statement for its Annual Meeting of Stockholders to be held on January 21, 1988, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

In fiscal year 1987, the Company acquired five boat manufacturers for \$120 million. The purchase price for Four Winns, Inc. accounted for a substantial portion of such purchase price. J. A. Winn, together with certain members of his immediate family owned substantially all of the capital stock of Four Winns, Inc. In fiscal year 1987, J. A. Winn was elected a Vice President of the Company.

Part IV**Item 14. Exhibits, Financial Statements, Schedules and Reports on Form 8-K**

The Index to Financial Statements on Page 22 of this Form 10-K includes a list of financial statements and schedules.

The requirements of Item 14(a)(3) are included in a separate exhibit index and exhibits to this Form 10-K are incorporated herein by reference.

There were no reports filed on Form 8-K during the fourth quarter of the year ended September 30, 1987.

Corporate Directors and Officers

Directors

Charles D. Strang
Chairman of the Board and
Chief Executive Officer, OMC

James C. Chapman
President and Chief
Operating Officer, OMC

Frank Borman
Vice Chairman, Texas Air Corp.

James B. Briggs
Private Investor

Robert C. Ernest
Senior Executive Consultant
Kimberly-Clark Corporation

William C. France, Jr.
President, Chief Executive Officer
and Director, International
Speedway Corporation; President,
National Association for Stock Car
Automobile Racing (NASCAR)

Urban T. Kuechle
Consultant

Richard T. Lindgren
President,
Chief Executive Officer
and Director, Cross and
Trecker Corporation

J. Willard Marriott, Jr.
Chairman of the Board,
President and Chief Executive
Officer, Marriott Corporation

Roland Merrell
Director of First National Bank
and Trust Company of
Stuart, Florida

Corporate Officers

Charles D. Strang
Chairman of the Board and
Chief Executive Officer

James C. Chapman
President and Chief
Operating Officer

Clarence P. Bangert
Vice President
Division Manager,
OMC Lincoln

Thomas J. Beeler
Vice President and
General Counsel

Michael S. Duffey
Treasurer

Wayne E. Jones
Vice President,
Strategic Planning and
Investor Relations

Dennis E. McArdle
Secretary and Associate
General Counsel

David F. Myers
Vice President,
Marine Products

Michael M. Potter
Vice President
General Manager, OMC
Parts and Accessories

Robert D. Randolph
Vice President,
Manufacturing

Edgar Rose
Vice President,
Marine Engineering
and Research

E. James Short
Vice President,
Employee Relations

Jerome M. Stumbras
Vice President and
General Manager,
Outdoor Power
Equipment Group

Samuel J. Winett
Vice President,
Finance and Controller

John A. Winn
Vice President
President,
OMC Boat Group

R. Warren Comstock
Assistant Secretary

James R. Maurice
Assistant Controller

Shareholder Information

Principal Executive Offices
Outboard Marine Corporation
100 Sea-Horse Drive
Waukegan, IL 60085
(312) 689-6200

Principal Subsidiaries
Outboard Marine Asia Ltd.
and Outboard Marine
International S.A.
Hong Kong
John Beavon, President

Outboard Marine Australia
Pty., Ltd.
Bankstown, New South Wales,
Australia
David J. Morris, General Manager

Outboard Marine Belgium, N.V.,
Brugge, Belgium
Owe L. Jansson, President

Outboard Marine
Corporation of Canada, Ltd.
Peterborough, Ontario, Canada
Dennis L. Koster, President

Outboard Marine de Mexico,
S.A. de C.V.
Juarez, Chihuahua, Mexico
Philip M. Meldahl, Plant Manager

Outboard Marine
International, Inc.
Miami, Florida
John H. Schueler, President

Brouwer Turf Equipment, Ltd.
Keswick, Ontario, Canada
Gerry Brouwer, President

Four Winns, Inc.
Cadillac, Michigan
Richard Fullmer
President

Bramco, Inc.
Culver, Oregon
Gary D. Trent, President

Carl A. Lowe Industries, Inc.
Lebanon, Missouri
William Ek, President

Stratos Boats, Inc.
Nashville, Tennessee
L. Earl Bentz, President

Sunbird Boat Company, Inc.
Columbia, South Carolina
Victor O. Roof, President

Common Stock Listing
New York Stock Exchange
Ticker Symbol: OM
Newspaper Listing Symbol:
OutbdM

**Transfer Agent, Registrar
and Dividend Disbursing Agent**
The First National Bank of Boston
Box 644
Boston, MA 02102
1-800-442-2001

Annual Meeting
Proxy statement and proxy card
are mailed to shareholders each
December. The Annual Meeting
of Shareholders will be held
at 9:00 a.m. on January 21, 1988,
at the duPont Hotel, 11th and
Market Streets, Wilmington, DE
19801

10-K Report
The company's report on
Form 10-K for the year ended
September 30, 1987, is incorpo-
rated (except for the cover and
signature page) into this
annual report.

Quarterly Reports
The company issues quarterly
reports to shareholders in
January, April and July. To
obtain copies of quarterly reports,
contact Investor Relations,
Outboard Marine Corporation,
100 Sea-Horse Drive,
Waukegan, IL 60085.

Dividend Reinvestment Plan
OMC shareholders may participate
in an automatic dividend reinvest-
ment and cash stock purchase
plan. For information contact:
Michael S. Duffey
Treasurer
Outboard Marine Corporation
100 Sea-Horse Drive
Waukegan, IL 60085
312/689-5222

Auditors
Arthur Andersen & Co.
P.O. Box 1215
Milwaukee, WI 53201

Incorporation
Outboard Marine Corporation is
incorporated under the laws
of the State of Delaware.

Trademarks
Trademarks owned by Outboard
Marine Corporation which appear
in this report are indicated
by the use of italics.

Investor Relations
Contact
Wayne E. Jones
Vice President, Strategic
Planning and Investor Relations
Outboard Marine Corporation
100 Sea-Horse Drive
Waukegan, IL 60085
312/689-5246
Telex 253891
Telecopy 312/689-5555

Outboard Marine Corporation
100 Sea-Horse Drive
Waukegan, IL 60085